POLITICAL ECONOMY: EXPOSITIONS OF ITS FUNDAMENTAL DOCTRINES. SELECTED FROM THE BEST WRITERS, WITH AN INTRODUCTION, BY WILLIAM BELL ROBERTSON.

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INTRODUCTION.

THE expositions comprised within this volume are from the writings of the most eminent political economists of the English school—viz., Adam Smith, Ricardo, Malthus, James Mill, J. R. M'Culloch, De Quincey, and John Stuart Mill. De Quincey is placed in this gallery—perhaps to the surprise of some—because his appreciation of the subtle distinctions involved in the groundwork of economic science is in keenness second only to the appreciation of the great Ricardo himself.

Adam Smith's contribution to political economy, *An Enquiry into the Nature and Causes of the Wealth of Nations*, is no doubt the most widely known economic treatise that has ever been written. For this it is indebted to its style. "There is not a book of better English to be anywhere found," says Lord Brougham. "The language is simple, clear, often homely-like; the illustrations, not seldom idiomatic, always perfectly adapted to the subject handled. Besides its other perfections, it is one of the most entertaining of books. There is no laying it down after you begin to read. You are drawn on from page to page by the strong current of the arguments, the manly sense of the remarks, the fulness and force of the illustrations, the thickly strewed and happily selected facts." Besides being the most widely known

treatise of its kind, *The Wealth of Nations* is also unique in being, according to Sir James Mackintosh, the distinguished statesman, orator, and scholar, "the only book which produced an immediate, general, and irrevocable change in some of the most important parts of the legislation of all civilised nations. . . . In a few years it began to alter laws and treaties; and has made its way through the convulsions of revolution and conquest to a due ascendant over the minds of men." More than once Buckle, in his *History of Civilisation*, describes Smith's book as the most important book ever written.

The author of the *Wealth of Nations* was as fortunate as his book. "It is not often," says Dugald Stewart, "that a disinterested zeal for truth has so often met with its just reward. Philosophers (to use an expression of Lord Bacon's) are 'the servants of posterity'; and most of those who have devoted their talents to the best interest of mankind have been obliged, like Bacon, to 'bequeath their fame' to a race yet unborn, and to console themselves with the idea of sowing what another generation was to reap. Mr. Smith was more fortunate; or rather in this respect his fortune was singular. He survived the publication of his work only fifteen years; and yet, during that short period, he had not only the satisfaction of seeing the opposition which it at first excited gradually subdue, but to witness the practical influence of his writings on the commercial policy of his country."

The few life facts presented by the career of Adam Smith are soon told, and are mainly derived from Dugald Stewart's *Biographical Memoirs*. He was born in 1723, in Kirkcaldy, where his father was Comptroller of the Customs. In 1737 he went to Glasgow University, whence in 1740 he proceeded with a Snell Scholarship to Balliol

College, Oxford. Here he resided seven years. In 1748, after living for a while in Kirkcaldy with his mother, for whom he had a deep and an abiding affection, he went to Edinburgh and lectured under the patronage of Lord Kames on rhetoric and belles-lettres. In 1751 he became Professor of Logic at his *Alma Mater* (Glasgow), and a year later Professor of Moral Philosophy. Regarding his course of moral philosophy lectures, Professor Millar, who was contemporary with him at Glasgow, says:—"In the last part of his lectures, he examined those political regulations which are founded not upon the principle of *justice*, but of *expediency*, and which are calculated to increase the riches, the power, and the prosperity of a state. Under this view, he considered the political institutions relating to commerce, to finances, to ecclesiastical and military establishments. What he delivered on these subjects contained the substance of the work he afterwards published under the title of *An Enquiry into the Nature and Causes of the Wealth of Nations.*" In 1763 he resigned his chair, and travelled the Continent for the next three years with the Duke of Buccleuch. Then in 1766 he returned to his mother's house at Kirkcaldy, and began "*to write a book in order to pass away the time*," as he wrote to his bosom-friend, David Hume. This book was none other than the *Wealth of Nations*, and was given to the world ten years later (1776). In 1778 its author was appointed a Commissioner of Customs in Scotland. "The duties of this office required his presence in Edinburgh, and accordingly his mother and his cousin, Miss Douglass, removed from Kirkcaldy and joined him there. The household was only broken up by the deaths of the former in 1784, and the latter in 1788. He never got over his mother's death. For sixty years her house had

been his real home."[1] He never married; though, according to Dugald Stewart, "he was for several years attached to a young lady of great beauty and accomplishment," who "died also unmarried." He died in July 1790, aged 67.

Besides the *Wealth of Nations*, published in 1776, the published writings of Adam Smith are:—Two articles in the *Edinburgh Review* for 1755—viz., *A Review of Johnson's Dictionary*, and *A Letter to the Authors of the Edinburgh Review; Theory of Moral Sentiments, and Dissertation on the Origin of Languages* (1759); *On the Principles which lead and direct Philosophical Inquiries* (1795): illustrated by the history of Astronomy, of the Ancient Physics, and of the Ancient Logics and Metaphysics; *Of the Nature of that Imitation which takes place in what are called the Imitative Arts* (1795); *Of the Affinity between certain English and Italian Verses* (1795); and *Of the External Senses* (1795).

David Ricardo, the third son of a numerous family, was born in London, in 1772. His father, a Jew born in Holland, had previously settled in England, where he was a successful member of the Stock Exchange. David entered his father's office at the age of fourteen, and married at the age of twenty-one, incurring by this step his father's displeasure. He accordingly set up in business on the Stock Exchange on his own account, and soon made a fortune. In 1813 he bought the Gatcomb Park estate, Gloucestershire; in 1814 he retired from business; in 1818 became Sheriff; and in 1819 entered Parliament as member for Portarlington, Ireland. He bought the seat. His constituents numbered about twelve, and possibly never saw him, as he is not known to have been ever in Ireland. He

[1] *Life of Adam Smith*, by R. B. Haldane, M.P.

was re-elected in 1820, and held the seat till his death in 1823. In Parliament he went with the Radical party of the period, voting for parliamentary reform and the ballot; and, naturally, had great weight in the House on questions of finance.

In 1799 he read Adam Smith's *Wealth of Nations*, and henceforth became a keen political economist. In 1809 he published some letters in the *Morning Chronicle* on the depreciated state of the currency, which was then agitating the mind of the authorities. These letters revealed a firm grasp of a difficult subject, and the writer had the satisfaction of seeing his recommendations completely embodied in the report of the Bullion Committee appointed in 1810. He traced the depreciation of the currency to the over-issue of Bank of England paper, and recommended a return to cash payments. In 1811 he became acquainted with James Mill and Malthus, and wrote his *Reply to Mr. Bosanquet's Practical Observations on the Report of the Bullion Committee.* A tract by Malthus on the Corn Laws evoked, in 1815, his *Essay on the Influence of a Low Price of Corn on the Profits of Stock;* in 1816 appeared his *Proposals for an Economical and Secure Currency: with Observations on the Profits of the Bank of England;* and in 1817 his immortal *Principles of Political Economy and Taxation.* In 1820 he wrote the article on the Funding System for the supplement of the *Encyclopædia Britannica;* and in 1822 *On Protection to Agriculture.* His *Plan for the Establishment of a National Bank* was published in 1824, the year after his death.

Ricardo seems to have been universally esteemed, and is handed down as a man of very kindly and attractive nature. Miss Edgeworth thought him one of the most agreeable and least formal persons she had met; and James Mill was

moved by his death to an extent that revealed *him* to be susceptible to emotions of which all had hitherto considered him quite innocent. According to Mill, whose encouragement is said to have induced Ricardo to publish his *Principles* and to enter Parliament, M'Culloch and Mill himself were Ricardo's "two and only genuine disciples," and as such they did their best to propagate his teachings. He needed disciples and expositors, so unattractive is his style and so difficult is he to understand. None of his disciples or expositors, however, have superseded him, and Political Economy still remains as he shaped it. His theory of value, theory of rent,[1] and theory of foreign trade have undergone no essential change since they emanated from the clear, strong head of the master.

The sources of information regarding Ricardo's life are M'Culloch's edition of the *Works of David Ricardo: with a Notice of the Life and Writings of the Author;* and Alexander Bain's *James Mill* (1882).

Thomas Robert Malthus was born in 1766, at the Rookery, Dorking, where his father was a landed proprietor. His early education he received from his father, who had many literary friends—among them Rousseau, Godwin, Condorcet; from the Rev. Richard Graves, rector of Claverton, near Bath; and at Warrington Academy, where the broader-minded Churchmen were not afraid to send their sons to mix with the sons of Dissenters. Thence he proceeded, in 1785, to Jesus College, Cambridge, of which he became a Fellow in 1797, and immediately afterwards

[1] Ricardo's theory of rent was first expounded by Dr. James Anderson in 1777, and subsequently in 1815 by Sir Edward West and by Malthus. Ricardo made it his own, however, by his fuller treatment and clearer vision of its place in economic speculation.

took orders in the Church of England, taking a curacy near Albury. In 1798 appeared his famous *Essay on the Principles of Population, or a view of its Past and Present Effects on Human Happiness; with an Inquiry into our Prospects respecting the Future Removal or Mitigation of the Evils which it Occasions.* It was published anonymously, and was suggested, as he himself says, "by a paper in Mr. Godwin's *Inquirer*. . . . The only authors from whose writings I had deduced the principle which formed the main argument of the essay were Hume, Wallace, Adam Smith, and Dr. Price; and my object was to apply it, to try the truth of those speculations on the perfectibility of man and society which at that time excited a considerable portion of the public attention." The essay ran into six editions in the author's lifetime, and was so bitterly attacked that Malthus was described as "perhaps the best-abused man of his age." Harriet Martineau once asked him whether he had suffered in spirits from the abuse lavished on him. "Only just at first," he answered. "I wonder whether it ever kept you awake a minute?" she further asked. "Never after the first fortnight," was his reply. Of course the abuse was the abuse of ignorance, and though perhaps no one agrees with Malthus now, his essay cannot be regarded as other than a successful achievement. In the field of practice it bore fruit in the radical reform of the Poor Laws in 1834, and in the field of scientific research it aided Darwin in his theory of natural selection. "In October 1838," says Darwin, "that is, fifteen months after I had begun my systematic inquiry, I happened to read for amusement *Malthus on Population*, and being well prepared to appreciate the struggle for existence which everywhere goes on, from long-continued observations of the habits of animals and plants, it at once struck me that under these circumstances favourable varia-

tions would tend to be preserved, and unfavourable ones to be destroyed. The result of this would be the formation of new species. Here, then, I had at last got a theory by which to work."

In 1800 Malthus published a tract, *On the High Price of Provisions*, also anonymously; in 1805 he was appointed Professor of Political Economy at Haileybury, the East India Company's college. In 1814 and 1815 he published *Observations on the Corn Laws; Grounds of an Opinion on the Policy of Restraining Importation;* and *The Nature and Progress of Rent*, wherein the theory of rent that is usually called the Ricardian theory is expounded. In 1819 he became a Fellow of the Royal Society; in 1820 published his *Principles of Political Economy;* in 1821 co-operated with James Mill, Grote, and Ricardo in founding the Political Economy Club; in 1823 wrote a tract on *The Measure of Value*, and the article on "Population" for the supplement of the *Encyclopædia Britannica;* and in 1827 issued his *Definitions in Political Economy.* During the later years of his life, which terminated in 1834, he was mainly engaged in revising his *Principles*, the second edition of which appeared, with a memoir by his friend Bishop Otter, in 1836.

As to the manner of man the much-abused author of the *Essay on Population* was, the last sentence from his epitaph in Bath Abbey may be quoted:—"The spotless integrity of his principles, the equity and candour of his nature, his sweetness of temper, urbanity of manners, and tenderness of heart, his benevolence and his piety, are the still dearer recollections of his family and friends." Again, Sir James Mackintosh, who was a colleague of Malthus at Haileybury, wrote: "I have known Adam Smith slightly, Ricardo well, Malthus intimately. Is it not something to say for a science

that its three great masters were about the three best men I ever knew?"

James Mill was born in 1773, at Northwater Bridge, Forfarshire. His father was a country shoemaker. From the parish school James went to Montrose Academy, where Joseph Hume, who in after-life was closely associated with him in political work, was also a pupil. From Montrose, Mill proceeded, in 179c, to Edinburgh University, and after going through the curriculum there and a course of divinity, being licensed to preach in 1798, he found himself in 1802 on his way to London with Sir John Stuart, the member of Parliament for Kincardineshire. In 1803 he originated and became editor of the *Literary Journal*, a shilling weekly, published by Baldwin; and in 1805 he became editor of the *St. James's Chronicle*. In 1804 he published a pamphlet on *Bounties on the Exportation of Grain;* and in the following year began the *History of British India*, which remains a standard work to this day. In 1808 he made the acquaintance of Bentham, whose most ardent disciple he became. At this period he was an indefatigable contributor to periodical literature. In 1811 he met Ricardo, whose growing reputation as an economist attracted him. They were ever after the closest friends, and in later years Bentham is represented as having said: "I was the spiritual father of Mill, and Mill the spiritual father of Ricardo." It was Mill's encouragement that induced Ricardo to publish his *Principles*, and to enter Parliament. In 1819, through the influence of Ricardo and Joseph Hume, but perhaps as much through his *History of India*, which had been published the previous year and sprang from the press an immediate success, Mill was appointed assistant to the examiner of Indian

correspondence in India House, the East India Company's headquarters, and in 1830 he became head of the office at a salary of £2000 a year. It was Mill who drafted the rules of the Political Economy Club, which, according to Professor Bain, grew out of a small knot of economists who were in the habit of meeting at Ricardo's house. It was founded in 1820, the year in which he published *Elements of Political Economy*, which were the lessons he had given his son, John Stuart Mill (*q.v.*). In 1824 Bentham started the *Westminster Review*, to which Mill naturally largely contributed. Among his other economic writings was an *Essay on the Impolicy of a Bounty on the Exportation of Grain, and the Principles which ought to Regulate the Commerce of Grain*, 1804; *Commerce Defended: an Answer to the Arguments . . . to prove that Commerce is not the Source of National Wealth;* and a dialogue which appeared in 1836, the year of his death, on the utility of political economy works. He also wrote *Analysis of the Phenomena of the Human Mind* (1829), edited by J. S. Mill, with notes by Alexander Bain, Andrew Findlater, and George Grote. His death occurred in 1836. No man contributed more to the intellectual activity of his time. He exercised great influence on every one that came into personal contact with him, and is regarded as the founder of what is called Philosophic Radicalism. Through his position in India House, too, he was able to give a beneficial bent to the government of India.

From the diversity of his writings, Thomas De Quincey is perhaps better known to general readers than any of the other thinkers whose works we have drawn upon. He was born in Manchester, in 1785. His father, who had been a well-to-do merchant, died when he was seven years of age,

and his education was begun at Salford, in the house of one of his guardians, continued at Bath Grammar School, a private school at Winkworth, Manchester Grammar School, and completed at Worcester College, Oxford. Having made the acquaintance of Coleridge and Wordsworth, on leaving Oxford in 1808, he took a cottage at Grasmere, and so became one of the Lake scholars. Here he remained till 1830, when his growing connection with the Blackwood publishing house made him move to Edinburgh. He died in 1859. His extensive writings consisted entirely of magazine articles, his opium habit, acquired in 1804 through seeking relief from neuralgia in laudanum, no doubt making more sustained efforts irksome, if not impossible.

De Quincey's writings on Political Economy comprise a short article, entitled "Malthus" (*London Magazine*, 1823); another article, entitled "Measure of Value" (*idem*, 1823); "On the services of Ricardo to Political Economy" (*idem*, 1824); "Dialogues of Three Templars on Political Economy: chiefly in relation to the Principles of Mr. Ricardo" (*idem*, 1824); and "Ricardo made Easy; or what is the Radical Difference between Ricardo and Adam Smith? With an Occasional Notice of Ricardo's Oversights" (*Blackwood's Magazine*, 1842). This last runs into three articles, which De Quincey expanded, and Messrs. Blackwood published in 1844, in volume form, under the title, *The Logic of Political Economy*. All these are conveniently arranged and reproduced in full in Professor David Masson's *Collected Writings of Thomas De Quincey* (vol. ix.).

The strange effect Ricardo's *Principles* had on the mind of the author of the *Confessions of an English Opium-Eater* is worth narrating. It appears that in 1811—thirty-

five years after the publication of the *Wealth of Nations*—when De Quincey was rising twenty-six, he had looked "into loads of books and pamphlets on many branches of Economy." "I saw," he continues, "that these were generally the very dregs and rinsings of the human intellect, and that any man of sound head, and practised in wielding logic with a scholastic adroitness, might take up the whole academy of modern economists and throttle them between heaven and earth with his finger and thumb, or bray their fungus heads to powder with a lady's fan." Nine years later, however, though "still in this caustic mood on that subject," and though it was "the time of his most complete intellectual prostration, his indifference to the claims of any subject, consequent upon his first lapse into absolute besottedness with excess of opium," an Edinburgh friend sent him a copy of Ricardo's *Principles of Political Economy and Taxation*, and here is how the reading of it affected him :—

"Wonder and curiosity were emotions that had long been dead in me. Yet I wondered once more—wondered at myself that could once again be stimulated to the effort of reading; and much more I wondered at the book. Had this profound work been really written during the tumultuous hurry of the nineteenth century? Could it be that an Englishman, and he not in academic bowers, but oppressed by mercantile and senatorial cares, had accomplished what all the universities of Europe, and a century of thought, had failed even to advance by one hair's-breadth? Previous writers had been crushed and overlaid by the enormous weight of facts, details, and exceptions; Mr. Ricardo had deduced, *a priori*, from the understanding itself, laws which first shot arrowy light into the dark chaos of materials, and had thus constructed what hitherto was but a collection of tentative discussions into a science of regular proportions, now first standing upon an eternal basis."

De Quincey seems to have regarded Ricardo with some-

thing like adoration. On the death of the latter, whom he had never met nor corresponded with, he wrote :—

"I do not remember that any public event of our own times has touched me so nearly, or so much with the feelings belonging to a private affliction, as the death of Mr. Ricardo. To me in some sense it *was* a private affliction—and no doubt to all others who knew and honoured his extraordinary talents. For great intellectual merit, wherever it has been steadily contemplated, cannot but conciliate some personal regard: and for my own part I acknowledge that, abstracting altogether from the use to which a man of splendid endowments may apply them, or even supposing the case that he should deliberately apply them to a bad one, I could no more on that account withhold my good wishes and affection from his person, than, under any consideration of their terrific attributes, I could forbear to admire the power and the beauty of the serpent or the panther. Simply on its own account, and without further question, a great intellect challenges, as of right, not merely an interest of admiration in common with all other exhibitions of power and magnificence, but also an interest of human love, and (where that is necessary) a spirit of tenderness to its aberrations.

"Mr. Ricardo, however, stood in no need of a partial or indulgent privilege; his privilege of intellect had a comprehensive sanction from all the purposes to which he applied it in the course of his public life: in or out of Parliament, as a senator or as an author, he was known and honoured as a public benefactor."

John Ramsay M'Culloch was born at Whithorn, Wigtownshire, in 1789. His father, Edward M'Culloch, was laird of Auchengool, Kirkcudbright. He went to school at Kinross, and subsequently, as a student at Edinburgh University, took to the study of Political Economy. His first publication was an *Essay on a Reduction of the Interest of the National Debt*, 1816, which led to his writing the economic articles for the *Scotsman*, of which he became editor in 1818, till 1820. At the same time he began contributing to the *Edinburgh Review* (to which

the number of his articles during the years 1818-37 amounted to 76), lecturing on Political Economy whenever he got a suitable chance, and forming classes in Edinburgh and London for the discussion of his favourite science. In 1824, the year after Ricardo's death, he delivered in London the Ricardo Memorial Lectures, which were published in the *Encyclopædia Britannica* supplement, under Political Economy. In 1825 he published his *Principles of Political Economy*, which ran through four editions, and has often been reprinted; in 1826 an *Essay on the Circumstances which Determine the Rate of Wages and the Condition of the Labouring Classes;* and in 1828 an edition of the *Wealth of Nations: with the Life of the Author, an Introductory Discourse, Notes, and Supplemental Dissertations.* From 1828 to 1834 he occupied the chair of Political Economy at London University, bringing out in the same period a *Treatise on the Principles, Practice, and History of Commerce;* and his most important work, which embodied the researches of twenty years, and still remains a standard reference book, *A Dictionary, Practical, Theoretical, and Historical, of Commerce and Commercial Navigation.* Then followed, in 1837, a *Statistical Account of the British Empire;* in 1845, a *Treatise on the Principles and Practical Influence of Taxation and the Funding System;* in 1845, the *Literature of Political Economy: with Historical, Critical, and Bibliographical Notices;* in 1846, his edition of the *Works of David Ricardo: with a Notice of the Life and Writings of the Author;* in 1848, a *Treatise on the Succession to Property vacant by Death;* and in 1853, *Treatises and Essays on Subjects connected with Economical Policy: with Biographical Sketches of Quesnay, Adam Smith, and Ricardo.* Several select collections of scarce and valuable tracts on economic questions were also brought out under his editor-

ship, and the article on Taxation in the eighth edition of the *Encyclopædia Britannica* was from his pen. He was an original member of the Political Economy Club, for which he edited, in 1856, a collection of tracts on money. In 1838 he had been appointed Comptroller of the Stationery Office, which appointment he held till his death in 1864. His library, comprising 10,000 volumes, went to his friend, Lord Overstone. M'Culloch is described as a man of immense physique and strong individuality. Though long resident in London, his broad Scottish accent never softened, nor did his attachment to Whig principles and his native whisky ever weaken.

William Nassau Senior was the son of the Rev. J. R. Senior, vicar of Durnford, Wiltshire, whose grandfather, Aaron Senior, was a Spaniard, but became a naturalised Englishman in 1723. W. N. Senior was born at Compton Beauchamp, Berkshire, in 1790, and was educated at Eton and Magdalen College, Oxford, where he had Whately (afterwards Archbishop) for his private tutor. After Oxford, he studied law at Lincoln's Inn, and was called to the bar in 1819. For a while he coached law students, among his pupils being Romilly, Master of the Rolls. It seems to have been evils arising from indiscriminate charity which he had observed at close quarters in his father's parish, that, at the age of twenty-five, riveted his attention on the Poor Laws, and as a consquence drove him to the study of Political Economy. So he appeared in the *Quarterly Review* (1821) with an article on the state of agriculture. Two years later he joined the Political Economy Club; and two years later still, 1825, he was appointed to the Political Economy chair at Oxford, which had just been founded by Henry Drummond, and in which Senior was succeeded by

Whately, his quondam tutor. In 1833 he was elected a member of the Poor Law Commission, and drew up the famous report on which was based the Poor Law of 1834. For his services in this connection he was offered £500 and a knighthood, which, however, he declined, as he also declined the offer of a Canadian governorship, the offer of the position of legal member of the Indian Council, and the offer of a seat on the new Poor Law Board. In 1836, however, he accepted the appointment of Master in Chancery, and sat on several Royal Commissions—the Factory Commission, 1837; the Hand Loom Commission, 1841; the Irish Poor Law Commission, 1844; the Education Commission, 1857. Though thus actively engaged in affairs, he yet brought out many works on economic questions during his busy life, and had many published posthumously. He is said to have "had a characteristic dislike to dwelling upon painful subjects"; yet the best part of his thoughts seem to have been concentrated on the Poor Laws.

John Stuart Mill, eldest son of James Mill (*q.v.*), was born in London, in 1806. He had an extraordinary upbringing, being educated by his unbending father. At three he was learning the Greek alphabet; at eight he was reading the Greek authors and learning Euclid, algebra, and Latin, besides teaching his young brothers and sisters; at twelve he was into the logic of the schoolmen and Aristotle; at thirteen he was studying Political Economy, he and his father going carefully through Adam Smith and Ricardo together, and discussing the different points in their morning walks; at fourteen he was in France, from May 1820 to July 1821, studied there nine hours a day, and came back a thorough French scholar; at fifteen, being intended for the bar, he was reading *Blackstone* and Roman

Law with John Austin; at sixteen he formed the Utilitarian Society for the discussion of philosophic questions; at seventeen, instead of going to the bar, he went into India House, where his father held a high position; at eighteen he wrote letters on the prosecution of Richard Carlile, and began to contribute to the *Westminster Review;* at nineteen he formed another society that used to meet at Grote's house in Threadneedle Street, from 8.30 A.M. to 10 A.M., for the purpose of going steadily through Ricardo's and other such works; and somewhere about the same time he edited Bentham's *Rationale of Judicial Evidence.* Out of those meetings at Grote's house grew the first book he wrote, *Some Unsettled Questions in Political Economy*, for which he could not get a publisher for fourteen years—not until after the success of his *Logic*, which appeared in 1843. Mill's last article in the *Westminster Review* was a reply to Sir Walter Scott's view of the French Revolution, and for this he collected so much material that he seriously contemplated writing the history of the Revolution. That task, however, fell to Carlyle, who had already been impressed with a series of letters Mill had in the *Examiner*, and Mill placed his material at Carlyle's disposal. Hence, it was no doubt through Mill's familiarity with the subject that Carlyle lent him the first volume of the MS. to read. How that MS., through the carelessness of a maid, got burned, and how Carlyle had to write the volume over again, is a well-known literary tragedy. When Carlyle's history came out, Mill was editor of the *Westminster Review*, and he inserted a laudatory notice of the book and of the author's powers. This notice appearing before any of the critics had expressed their views, gave the key to future criticism, and the book became immediately popular. After the publication of his *Logic*, he began in the autumn

of 1845 to write his *Principles of Political Economy*, and had it out early in 1848. In 1851 he married Mrs. Taylor, with whom he had been closely acquainted since 1830, and to whose intellectual sympathy, according to his *Autobiography*, he was greatly indebted. In collaboration with her during the succeeding seven years, he wrote *On Liberty*, *On Parliamentary Reform*, *Subjection of Women*, and *Utilitarianism*. Mrs. Taylor died in 1858, and Mill drowned his grief in work. He was now head of the Examiner's office in India House, and as such he had the preparing of the case for the East India Company against the transfer of the government of India to the Crown. The transfer, as we all know, took place, and Mill received compensation for the loss of his office on a liberal scale and retired. He was offered a seat on the new Indian Council twice, and refused each time. In 1859 he reviewed *The Senses and Intellect* and *The Emotions and the Will*—the great works of his friend, Professor Alexander Bain — in the *Edinburgh Review;* and in 1865 published his *Examination of Sir William Hamilton's Philosophy*. That year his brief political career began, and he was invited to contest the borough of Westminster—in the Radical interest, of course. He accepted the invitation, laying down as conditions of his acceptance, that he would neither canvas nor pay canvassers, nor busy himself with the local affairs of the constituency. He attended a few public meetings, and answered questions. One question put to him was whether in his writings he ever said the English working classes were "generally liars." His answer, a simple "I did," evoked loud applause, and he was duly returned to Parliament. In 1868, however, he was rejected, having incurred odium through his active participation in the movement to have Governor Eyre prosecuted in connection

with his suppression of the Jamaica insurrection, and through his having subscribed to Bradlaugh's election expenses. After this he retired to Avignon, where he had a house, and where he died in 1873, his last public act being the formation of the Land Tenure Association, designed to mitigate the struggle he saw pending between labour and capital. The sources of information regarding Mill's life are the *Autobiography*, and *John Stuart Mill: a Criticism, with Personal Recollections*, by Professor Alexander Bain.

In the works of the foregoing writers is found all that has permanence and scientific form in Political Economy, and for this reason, as well as for the variety of style they present, the expositions given hereafter have been taken from them. As to the expositions themselves, they have been selected, not merely on the ground of soundness, but also as illustrative of the method pursued in economic speculation; for equal in importance to the arriving at correct conclusions in scientific investigation is a knowledge of the way to arrive at such conclusions. With bad tools a man may build a good edifice; but the same man with good tools would, with less effort and greater certainty, build a better. Another consideration influencing these selections has affected their length. Malthus and Senior have been sparingly drawn upon because they are somewhat diffuse, and diffuseness only scatters the attention. Ricardo, for an almost opposite reason, is perhaps not represented to the extent his pre-eminence might seem to merit; he is so concise and so profound, that to understand him implies a knowledge of Political Economy beyond what is assumed on the part of the majority of readers of this book. Adam Smith has been chosen where he appears to be most

informing. James Mill has been favoured by reason of his lucidity; M'Culloch by reason of what may be called his sketchiness; De Quincey by reason of his pungency and brilliance; and John Stuart Mill by reason of his simplicity. Other economists—notably Professor Cairnes on Value and Demand and Supply, and Thornton on Wages—are equally worthy with the above of being drawn upon; but to multiply our authors would have involved the curtailing of extracts to the detriment of completeness in the expositions offered.

In the introduction to a book of this kind offered to the public, at the present time, something bearing upon the Fiscal controversy may not unnaturally be looked for. Accordingly, not to disappoint this expectation, we shall conclude with an examination of the reasons given for the unquestioned fact that foreign producers under-sell home producers, subsequently seeking to explain *why* foreign farmers and *why* foreign manufacturers thus under-sell our own.

Explanations are plentiful enough, if not satisfying. The farmer, *e.g.*, is said to be hopelessly beaten because of the boundless expanse of virgin soil at the disposal of his competitors. Those that offer this explanation do not tell us that virgin soil is usually farthest from the market, and is the hardest to cultivate. It is so uneven that crops on it have often to be reaped by the old-fashioned sickle. It is unequal also in point of fertility, some parts being so rich that grain crops run too much to straw and are "lodged" or beaten down and seriously damaged by the slightest storm, while other parts are so poor that the seed sown on them never even germinates. Besides, what of the virgin forests that have often had to be cleared, and the virgin stumps that have had to be uprooted before a sheaf of

corn has been harvested? If any British farmer ever envies the virgin soil of new countries, let him take comfort from the fact that many a weary settler has often sighed for fields as level as the fields of the old country, for roads as solid as the roads of the old country, and even for soil as fertile as the soil of the old country; for, after all, British fields and British pastures are nowhere beaten. Why else do they yield more per acre than other fields? Their wheat yield per acre is 31.76 bushels, while Canada and the United States, with their boundless expanse of virgin soil, yield respectively only 16.92 and 12.76 bushels per acre. And so is it with other cereals: the fields of the United Kingdom are an easy first.

Coming now to manufactured articles, we are accustomed to hear expressions of amazement every day at the cheapness of foreign commodities, and we are equally accustomed to receiving explanations. At first these articles were said to be cheap because they were inferior, and so we had them labelled "Made in Germany" or "Made in America," or whatever their country of origin, so that customers might be warned against them. The warning, however, was unavailing; for the public, finding these so-called inferior foreign articles quite good enough, with the super-added advantage of being cheap, continued to purchase them. Then we were told that these articles were cheap because foreign workmen were paid very low wages. Here, in a shop-window, ticketed 2s. 6d., is a clock, fitted with an alarm, and warranted to get you up at the correct time to go to work every morning for two years. It came on the market while clocks were still unobtainable in this country under pounds. How is this? "Oh," comes the ready answer, "the foreign maker has scarcely any wages to pay away. Easy enough to see that if you get a thing

made for next to nothing, you can easily sell it for half-a-crown."

"But, my dear fellow, look! It has been made in America, and I read in the paper every day that the very flower of our workmen are attracted to that country by reason of the higher wages prevailing there! How now?" you ask. But your glib instructor has turned away.

Another explanation, oft-repeated, is that foreign manufacturers, after satisfying home demands and making a good profit, throw their surplus stocks upon our markets at any price. Sometimes these stocks are said to be selling at a lower price here than in the country they come from; therefore, it is urged, they must have been disposed of in the way indicated. This explanation derives weight from what is frequently observed in the business of buying and selling. Every evening there may be seen in London, and no doubt on a smaller scale in other places, groups of poor women and children, with bags and baskets, gathered round the side-entrances of, let us say, fishmongers' shops. They are there to get the remnants of the day's trading. For a copper or two they get, as far as quantity is concerned, what ordinary customers during the day have been paying as many shillings for. Indeed, it is sometimes profitable for the fishmonger to fill their baskets for nothing rather than have an accumulation of trade refuse, which he would have to pay some one to remove. The same thing happens at restaurants. Poor, battered, evidently homeless individuals may be seen at certain times passing the back doors of such establishments in line, and to each, as he comes abreast of the door, is handed a paper parcel of food —roast meats, vegetables, scraps of bread—enough for a giant. In every trade there are remnants, not only where the goods dealt in are perishable, but also in other cases

through change of fashion, and through new methods superseding old; and the traders are usually willing to let such remnants go for what they can get, having already cleared themselves in the particular line concerned while the commodity was still in vogue. If, therefore, there be anything in the assertion that foreign commodities are cheap because the foreigner, having cleared himself in his own markets, can afford to let us have his surplus stocks at any price, then it follows that Great Britain, the wealthiest nation this earth has ever seen, the biggest importer of foreign goods this earth has ever seen, gets served after the regular customers, is a remnant buyer, a prowler for bargains round the foreign manufacturers' back-door, a purchaser of scraps and cast-asides, which she has conveyed to her shores in the lordliest ships this earth has ever seen! Is such a thing conceivable? Indeed, is it possible?

There is still another explanation that may perhaps be profitably and briefly considered. Some sweep every difficulty away by the one bold assertion that our markets are full of foreign goods because our system of free trade makes our markets the dumping ground of the world. Now, our markets are no fuller of foreign goods than foreign markets are of our goods. We export far more manufactured articles than any other nation. The foremost exporting countries are the United States, France, Germany, and this country; and of those countries the foremost exporter of *manufactured* articles is Britain. She exports manufactures of the value of the manufactures of any two of the other three countries combined, our manufactured exports being, in round figures, £220,000,000, Germany's being £140,000,000, France's being £90,000,000, and America's being £76,000,000. Thus in *manufactures* we put upon the markets of the world more than half

as much again as Germany does, far more than twice as much as France, and three times as much as the United States. Therefore, if it is matter for complaint by the people of any country that their markets are full of articles made in another country, we ought certainly to be the last to make complaint. Moreover, as other countries do not have a system of free trade, and we, nevertheless, get into them so much more manufactured goods than any other country, the absence of free trade in their case does not seem to provide a very efficacious barrier against the inlet of foreign-made goods.

The foregoing are the leading reasons given for the under-selling of home produce and manufactures by foreign. They are the merest commonplaces of every market. Let one shopman be under-sold by another, and he will immediately tell his customers that the goods his rival is selling, though they look like his, are not really of the same quality as his—just what the home-maker says at first of the foreign-maker's goods; then when he can no longer maintain this, he will say that his rival does not pay his people so well as he himself, good man, does—exactly what is said of the foreigner. Driven from this point, he may then say that it is a job-line the other man has acquired. He may even with a significant look say, "I have to *pay* for my stuff," darkly insinuating that the other party *does not* pay for his. It is such statements as these, born of the heated tempers and perverted judgments of rival sellers, that, when applied to the explication of the phenomena of foreign trade, are dignified with the title of economic arguments! As arguments, they are absolutely unsatisfying and unedifying. They are worse, for if left to spread unchecked, they become articles of belief, ultimately affecting a nation's policy, and leading it off the high-road

of progress into byways that end only in quagmires. It is not enough, however, to expose fallacious explanations. People will have explanations, and if not supplied with sound ones, they will accept the unsound. Nature abhors a vacuum, and the human mind equally abhors unexplained phenomena. Hence, every age, no matter how dark and ignorant, has its explanations of every manifestation that has been sufficiently striking to arrest attention. The heavenly bodies were prevented from falling to earth because they were stuck in a firmament; volcanic fires came from Vulcan's forge; thunder was the raging voice of Jupiter; Neptune ruled the waves; the mists of early morning were the breath of the snorting steads that had drawn up the sun.

Because foreign commodities can bear the cost of heavy transit charges, and yet under-sell similar commodities made at the very doors of the market, it is immediately inferred that the foreigner enjoys special facilities and advantages. Would it not be just as logical to infer that the low price of his commodities is due to special disabilities and disadvantages? Things are sold "at a sacrifice," as the phrase goes, in times of stress. The well-to-do can wait for their own price, the harassed and driven trader, anxious to sell, tempts customers by reducing his prices; and the more harassed and driven he is, the more anxious he will be to sell; and the more anxious he is to sell, the more is he likely to reduce these prices. To argue, then, from the low prices of foreign goods, that foreigners enjoy opportunities and advantages denied to us, is not a whit more reasonable than it would be to argue that their low prices show them to be in a bad way.

Ricardo, the Mills, and subsequent economists have amply demonstrated the circumstances under which a pro-

fitable commerce can be carried on between nations. England may be so circumstanced, says Ricardo, that to produce a certain quantity of cloth may require the labour of 100 men, and a certain quantity of wine the labour of 120 men; Portugal, on the other hand, might require the labour of only 90 men to produce the same quantity of cloth, and the labour of only 80 to produce the same quantity of wine. It would, therefore, he argues, be advantageous for Portugal to export wine in exchange for cloth, for thereby she would receive the produce of 100 English cloth-makers, which equals the produce of 90 of her own men, for the produce of 80 wine-growers. It would also be advantageous for England, he proceeds, for in such an exchange she would receive for the cloth of 100 men as much wine as would require 120 of her own men to produce. Portugal would thus save the labour of 10 men, and England would save the labour of 20 men. This is not the rate at which English cloth would exchange for Portuguese wine; for why should England benefit to so much greater an extent than Portugal? It is enough, however, for our present purpose, which is to show that the older economists saw quite clearly wherein lay the source of gain derived from international commerce—viz., in the productive inequalities prevailing in different countries. What they never convincingly set forth are the causes that determine the prices at which the products of one country sell in another. This is what we shall now endeavour to do.

Just as Ricardo supposes fixed productive conditions in two nations, so shall we. Let the two nations be England and the United States, and let England be much more favourably situated productively than the United States. What we have to show is that with a degree of productivity

far inferior to England, America may, nevertheless, under-sell England. Let England be so much more richly endowed than America that, with the labour of 9 men, she can procure as much gold as America can with the labour of 27 men, and as much wheat as in America requires the labour of 18 men.[1] It makes no difference to the argument how England procures the gold. Her productive efficiency in the matter of gold is three times the productive efficiency of the United States, and in the matter of wheat two times. Let the produce of the labour of 9 men in England be 9 gold-pieces; then the produce of the labour of 27 men in America is 9 similar gold pieces. While England provides her own gold and grows her own wheat, the produce of the labour of 9 gold-seekers will exchange for the produce of the labour of 9 wheat-growers. The price of the wheat grown by 9 men will be 9 gold-pieces. Similarly, in America, the produce of the labour of 27 gold-seekers will exchange for the wheat grown by 27 men. The price of the wheat grown by 27 men in America will therefore be 9 gold-pieces. Thus, the wheat grown by 9 men in England is the same price as the wheat grown by 27 Americans. But the wheat grown by 9 Englishmen equalling the wheat grown by 18 Americans, the wheat grown by 27 Americans will be $1\frac{1}{2}$ times that quantity—will, in other words, equal the wheat grown by $13\frac{1}{2}$ Englishmen, which, selling in America at 9, is selling in England at $13\frac{1}{2}$ gold-pieces. Thus, wheat, though grown in America with twice the labour, is yet only two-thirds of the price of wheat grown in England. English gold-producers seeing that they can get the same wheat from America so much cheaper will unquestionably seek to

[1] It is not extravagant to suppose that 9 English wheat-growers grow as much wheat as 18 Americans, seeing that an acre of English land yields 31 bushels to America's 12.

procure wheat at the lower price. Similarly, American wheat-growers, seeing the price of wheat to be so much higher in the English market than in their own, will seek to sell there. At what price will they sell? For the produce of 18 wheat-growers they will not take less than 6 gold-pieces, for they can get that at home; and they will not receive more than 9, for English purchasers can get the home-grown article at that. The price, therefore, will fluctuate between these two points, and it will always tend to settle at that point at which each country derives the same gain—viz., at $7\frac{1}{2}$ gold-pieces for 18 men's wheat, or 6 gold-pieces for 15 men's wheat. The total gain is 3 gold-pieces, of which $1\frac{1}{2}$ will go to America and $1\frac{1}{2}$ to Britain. The productive efficiency of America being now one-half the productive efficiency of England, $1\frac{1}{2}$ gold-pieces, representing the labour of $1\frac{1}{2}$ Englishmen, will represent the labour of 3 Americans. America thus gains the equivalent of the labour of 3 of her men in 18, and England, gaining the labour of $1\frac{1}{2}$ men in 9, also gains at the rate of 3 of her men in 18.

The price of 9 men's wheat in England will now fall from 9 gold pieces to $7\frac{1}{2}$, the produce of the labour of only $7\frac{1}{2}$ Englishmen. But 9 Englishmen cannot continue to labour for the equivalent of only $7\frac{1}{2}$ Englishmen's labour; therefore, they would have to withdraw from the cultivation of wheat, and would seek their wheat by procuring gold. The English wheat industry would contract and her gold industry expand. In America wheat would rise; what formerly sold for 6 gold-pieces would now fetch $7\frac{1}{2}$. But the wheat that would now be selling for $7\frac{1}{2}$ gold-pieces in America is the produce of 18 men, and the produce of 18 men in America digging gold is only 6 gold pieces; and more than that American gold-diggers cannot

continue to give. While, therefore, the American wheat industry would expand, as by growing wheat the same labour thereby procured a fourth more gold, the gold industry would contract. In England, agriculture, and in America, gold-digging, would be ruined by the opening up of trade between the two countries under the conditions supposed.

Now, to save these industries, each nation might resort to protection. In this case England would have to put a duty on American wheat so that the wheat of 18 Americans could not possibly be sold in England under 9 gold-pieces. Thus, if America offered England the wheat grown by 18 of her men for 7½ gold pieces, England would under such protection say, "No; but I'll take the wheat grown by 15 of your men for 7½ gold pieces," which is at the rate of 9 gold-pieces for 18 Americans' or of 9 Englishmen's wheat. That is to say, she would prefer what is generally considered a bad bargain to a good bargain; she would insist on giving 9 sovereigns for what was offered to her for 7½. In the case of America wishing to save her gold industry by protection, she would have to put a duty on English gold, so that the wheat of 18 Americans could not possibly be purchased for more than 6 gold-pieces. Thus, if England offered America 7½ gold-pieces for 18 Americans' wheat, America under such protection would say: "No; but I'll take 6 gold-pieces for the wheat," which is all the American gold industry can pay. That is to say, America would be in the position of preferring 6 sovereigns to 7½. A protective duty on gold is never contemplated in the policy of any nation.[1] The consideration of such a duty, however, is

[1] Through not putting a duty on gold protective tariffs are rendered nugatory. One nation can purchase with gold commodities in protected markets at the market price. This gold has been acquired by the labour of the purchasing country, and by taking it in exchange, the

useful, as it shows the utter impossibility of the foreigner paying duties. The object of the duty in the case just supposed is to keep the price of wheat in America down and the value of gold up, which is effected by keeping gold out unless and until it can take more than its worth in exchange. In the case of the protective duty on wheat in England that made England refuse 18 men's wheat and prefer 15 men's for the same money, if America *could* pay the duty she *would*. But the more she offers England, the higher does the barrier against her grow. When England refuses to admit wheat below a certain price, it is futile for America to offer her more—that is making the matter worse and worse against America. So when America insists on refusing to admit English gold because it is at a lower rate than her own gold, it is futile for England to offer it her at a still lower rate.

As to "dumping," it is said that protected industries getting a high price for their products in the home markets flood foreign markets at prices below cost. No proof of this is offered, and it looks as though the statement were an invention put forward to explain the low prices of foreign commodities. We have already shown how foreign commodities under-sell domestic, and do not need this or any other statement to aid our comprehension. All the same let us examine this theory of "dumping." Any commodity in the hands of a monopolist may be sold above its natural price. The monopolist can put what price he likes on it; of course, his desire to sell will prevent him from putting that price at a prohibitive figure. Now, monopolists are not driven to produce on an extended scale. It is only in the

protected country is purchasing the result of the labour of the other country just as much as if it took a machine or any other commodity. Every trade transaction is reciprocal.

case of commodities subject to competition, and therefore selling at their natural price, that the introduction of improved machinery and abridgments of labour, reducing the value of the output, spur the manufacturer to increase the output to realise the same value. An industry that received twice the natural price for its products at home is the last industry in the world to seek to extend its operations by selling below the natural price abroad. In the face of this universal truth, and in the absence of proof that protected monopolies are flooding our markets with produce at a loss, it is permissible to decline to believe in "dumping" until, at any rate, further evidence is forthcoming.

W. B. ROBERTSON.

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POLITICAL ECONOMY.

CHAPTER I.

SUBJECT-MATTER AND SCOPE OF POLITICAL ECONOMY.

ADAM SMITH.

THE annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniencies of life which it annually consumes, and which consist always either in the immediate product of that labour, or in what is purchased with that produce from other nations. According, therefore, as this produce, or what is purchased with it, bears a greater or smaller proportion to the number of those who are to consume it, the nation will be better or worse supplied with all the necessaries and conveniencies for which it has occasion.

But this proportion must, in every nation, be regulated by two different circumstances: first, by the skill, dexterity, and judgment with which its labour is generally applied; and, secondly, by the proportion between the number of those who are employed in useful labour, and that of those who are not so employed. Whatever be the soil, climate, or extent of territory of any particular nation, the abundance or scantiness of its annual supply must, in that particular situation, depend upon those two circumstances.

The abundance or scantiness of this supply, too, seems to depend more upon the former of those two circumstances than upon the latter. Among the savage nations of hunters

and fishers, every individual who is able to work is more or less employed in useful labour, and endeavours to provide, as well as he can, the necessaries and conveniencies of life, for himself, or such of his family or tribe as are either too old, or too young, or too infirm to go a hunting and fishing. Such nations, however, are so miserably poor, that from mere want, they are frequently reduced, or, at least, think themselves reduced, to the necessity sometimes of directly destroying, and sometimes of abandoning their infants, their old people, and those afflicted with lingering diseases, to perish with hunger, or to be devoured by wild beasts. Among civilised and thriving nations, on the contrary, though a great number of people do not labour at all, many of whom consume the produce of ten times, frequently of a hundred times, more labour than the greater part of those who work; yet the produce of the whole labour of the society is so great, that all are often abundantly supplied, and a workman, even of the lowest and poorest order, if he is frugal and industrious, may enjoy a greater share of the necessaries and conveniencies of life than it is possible for any savage to acquire.

Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to supply a plentiful revenue or subsistence for the people, or, more properly, to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.

That wealth consists in money, or in gold and silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce, and as the measure of value. In consequence of its being the instrument of commerce, when we have money we can more readily obtain whatever else we have occasion for than by means of any other commodity. The great affair, we always find, is to get money. When that is obtained there is no difficulty in making any subsequent purchase. In conse-

quence of its being the measure of value, we estimate that of all other commodities by the quantity of money which they will exchange for. We say of a rich man that he is worth a great deal, and a poor man that he is worth very little money. A frugal man, or a man eager to be rich, is said to love money; and a careless, generous, or a profuse man, is said to be indifferent about it. To grow rich is to get money; and wealth and money, in short, are, in common language, considered as in every respect synonymous.

A rich country, in the same manner as a rich man, is supposed to be abounding in money; and to heap up gold and silver in any country is supposed to be the readiest way to enrich it. For some time after the discovery of America, the first inquiry of the Spaniards, when they arrived upon any unknown coast, used to be, if there was any gold or silver to be found in the neighbourhood? By the information which they received, they judged whether it was worth while to make a settlement there, or if the country was worth the conquering. Piano Carpino, a monk, sent ambassador from the King of France to one of the sons of the famous Gengis Khan, says that the Tartars used frequently to ask him, if there was plenty of sheep and oxen in the kingdom of France? Their inquiry had the same object with that of the Spaniards. They wanted to know if the country was rich enough to be worth the conquering. Among the Tartars, as among all other nations of shepherds, who are generally ignorant of the use of money, cattle are the instruments of commerce and the measures of value. Wealth, therefore, according to them, consisted in cattle, as according to the Spaniards it consisted in gold and silver. Of the two, the Tartar notion, perhaps, was the nearest to the truth.

A country that has no mines of its own must undoubtedly draw its gold and silver from foreign countries, in the same manner as one that has no vineyards of its own must draw its wines. It does not seem necessary, however, that the attention of government should be more turned towards the one than towards the other object. A country that has

wherewithal to buy wine, will always get the wine which it has occasion for; and a country that has wherewithal to buy gold and silver, will never be in want of those metals. They are to be bought for a certain price like all other commodities, and as they are the price of all other commodities, so all other commodities are the price of those metals. We trust with perfect security that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for; and we may trust with equal security that it will always supply us with all the gold and silver which we can afford to purchase or employ in circulating our commodities, or in other uses.

If, notwithstanding all this, gold and silver should at any time fall short in a country which has wherewithal to purchase them, there are more expedients for supplying their place than that of almost any other commodity. If the materials of manufacture are wanted, industry must stop. If provisions are wanted, the people must starve. But if money is wanted, barter will supply its place, though with a good deal of inconveniency. Buying and selling upon credit, and the different dealers compensating their credits with one another, once a month or once a year, will supply it with less inconveniency. A well-regulated paper money will supply it, not only without any inconveniency, but, in some cases, with some advantages. Upon every account, therefore, the attention of government never was so unnecessarily employed, as when directed to watch over the preservation or increase of the quantity of money in any country.

No complaint, however, is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it. Those who have either, will seldom be in want either of the money or of the wine which they have occasion for. This complaint, however, of the scarcity of money, is not always confined to improvident spendthrifts. It is sometimes general through a whole mercantile town

and the country in its neighbourhood. Over-trading is the common cause of it. Sober men, whose projects have been disproportioned to their capitals, are as likely to have neither wherewithal to buy money, nor credit to borrow it, as prodigals whose expense has been disproportioned to their revenue. Before their projects can be brought to bear, their stock is gone, and their credit with it. They run about everywhere to borrow money, and everybody tells them that they have none to lend. Even such general complaints of the scarcity of money do not always prove that the usual number of gold and silver pieces are not circulating in the country, but that many people want those pieces who have nothing to give for them. When the profits of trade happen to be greater than ordinary, over-trading becomes a general error both among great and small dealers. They do not always send more money abroad than usual, but they buy upon credit, both at home and abroad, an unusual quantity of goods, which they send to some distant market, in hopes that the returns will come in before the demand for payment. The demand comes before the returns, and they have nothing at hand with which they can either purchase money or give solid security for borrowing. It is not any scarcity of gold or silver, but the difficulty which such people find in borrowing, and which their creditors find in getting payment, that occasions the general complaint of the scarcity of money.

But it is but a very small part of the annual produce of the land and labour of a country which can ever be destined for purchasing gold and silver from their neighbours. The far greater part is circulated and consumed among themselves; and even of the surplus which is sent abroad, the greater part is generally destined for the purchase of other foreign goods. Though gold and silver, therefore, could not be had in exchange for the goods destined to purchase them the nation would not be ruined. It might, indeed, suffer some loss and inconveniency, and be forced upon some of those expedients which are necessary for supplying the place of money. The annual produce of its land and

labour, however, would be the same or very nearly the same, as usual, because the same, or very nearly the same, consumable capital would be employed in maintaining it. And though goods do not always draw money so readily as money draws goods, in the long run they draw it more necessarily than even it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys, does not always mean to sell again, but frequently to use or to consume; whereas he who sells, always means to buy again. The one may frequently have done the whole, but the other can never have done more than the one-half of his business. It is not for its own sake that men desire money, but for the sake of what they can purchase with it.

Consumable commodities, it is said, are soon destroyed; whereas gold and silver are of a more durable nature, and, were it not for this continual exportation, might be accumulated for ages together, to the incredible augmentation of the real wealth of the country. Nothing, therefore, it is pretended, can be more disadvantageous to any country than the trade which consists in the exchange of such lasting for such perishable commodities. We do not, however, reckon that trade disadvantageous which consists in the exchange of the hardware of England for the wines of France; and yet hardware is a very durable commodity, and were it not for this continual exportation, might, too, be accumulated for ages together, to the incredible augmentation of the pots and pans of the country. But it readily occurs that the number of such utensils is in every country necessarily limited by the use which there is for them; that it would be absurd to have more pots and pans than were necessary for cooking the victuals usually consumed there; and that if the quantity of victuals were to increase, the number of pots and pans would readily increase along with it, a part of the increased quantity of victuals being employed in purchasing them, or in main-

taining an additional number of workmen whose business it was to make them. It should as readily occur that the quantity of gold and silver is in every country limited by the use which there is for those metals; that their use consists in circulating commodities as coin, and in affording a species of household furniture as plate; that the quantity of coin in every country is regulated by the value of the commodities which are to be circulated by it; increase that value, and immediately a part of it will be sent abroad to purchase, wherever it is to be had, the additional quantity of corn requisite for circulating them; that the quantity of plate is regulated by the number and wealth of those private families who choose to indulge themselves in that sort of magnificence; increase the number and wealth of such families, and a part of this increased wealth will most probably be employed in purchasing, wherever it is to be found, an additional quantity of plate; that to attempt to increase the wealth of any country, either by introducing or by detaining in it an unnecessary quantity of gold and silver, is as absurd as it would be to attempt to increase the good cheer of private families by obliging them to keep an unnecessary number of kitchen utensils. As the expense of purchasing those unnecessary utensils would diminish instead of increasing either the quantity or goodness of the family provisions; so the expense of purchasing an unnecessary quantity of gold and silver must, in every country, as necessarily diminish the wealth which feeds, clothes, and lodges, which maintains and employs the people. Gold and silver, whether in the shape of coin or of plate, are utensils, it must be remembered, as much as the furniture of the kitchen. Increase the use for them, increase the consumable commodities which are to be circulated, managed, and prepared by means of them, and you will infallibly increase the quantity; but if you attempt, by extraordinary means, to increase the quantity, you will as infallibly diminish the use and even the quantity too, which in those metals can never be greater than what the use requires. Were they ever to be accumulated beyond

this quantity, their transportation is so easy, and the loss which attends their lying idle and unemployed so great, that no law could prevent their being immediately sent out of the country.

I thought it necessary, though at the hazard of being tedious, to examine at full length this popular notion that wealth consists in money, or in gold and silver. Money, in common language, as I have already observed, frequently signifies wealth; and this ambiguity of expression has rendered this popular notion so familiar to us, that even they who are convinced of its absurdity, are very apt to forget their own principles, and in the course of their reasonings to take it for granted as a certain and undeniable truth. Some of the best English writers upon commerce set out with observing, that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds. In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of natural industry and commerce.

RICARDO.

The produce of the earth—all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in political economy.

MALTHUS.

Of the subjects which have given rise to differences of opinion among political economists, the *definition* of wealth is not the least remarkable. Such differences could hardly have taken place, if the definition had been obvious and easy; but, in reality, the more the subject is considered, the more it will appear difficult, if not impossible, to fix on one not liable to some objection. In a work, however, on a science the great object of which is, to inquire into the causes which influence the progress of wealth, it seems natural to look for some definition of those objects, the increase or decrease of which we are about to estimate; and if we cannot arrive at perfect accuracy, so as to embrace all we wish and exclude all we wish in some short description, it seems desirable to approach as near to such a description as we can. It is known not to be very easy to draw a distinct line between the animal, vegetable, and mineral kingdoms, yet the advantage of such a classification is universally acknowledged; and no one, on account of a difficulty in a few cases of little consequence, would refuse to make use of so convenient an arrangement.

It has sometimes been said that every writer is at liberty to define his terms as he pleases, provided he always uses them strictly in the sense proposed. Such a liberty, however, may be fairly doubted; at least it must be allowed that if a person chooses to give a very inadequate or unusual definition in reference to the subject on which he proposes to treat, he may at once render his inquiries completely futile. If, for instance, a writer, professing to treat of the wealth of nations, were to define wealth to consist exclusively of broad cloth, it is obvious that, however consistent he might be in the use of his terms, or however valuable a treatise he might produce on this one article, he would evidently have given but very little in-

formation to those who were looking for a treatise on wealth, according to the common acceptation of the term.

So important, indeed, is an appropriate definition, that perhaps it is not going too far to say, that the comparative merits of the systems of the economists and Adam Smith depend mainly upon their different definitions of wealth and of productive labour. If the definitions which the economists have given of wealth and of productive labour be correct, *their* system has the advantage: if the definitions which Adam Smith has given of wealth and of productive labour be the most correct, *his* system is superior.

Of those writers who have either given a regular definition of wealth, or have left the sense in which they understand the term to be collected from their works, some appear to have confined it within too narrow limits, and others to have extended it greatly too far. In the former class the economists stand pre-eminent. They have confined wealth, or riches, to the neat produce derived from the land; and in so doing they have greatly diminished the value of their inquiries, in reference to the most familiar and accustomed sense in which the term wealth is understood.

Among the definitions which have extended the meaning of the term wealth too far, Lord Lauderdale's may be taken as an example. He defines wealth to be, "All that man desires as useful and delightful to him."

This definition obviously includes everything, whether material or intellectual, whether tangible or otherwise, which contributes to the advantage or pleasure of mankind, and, of course, includes the benefits and gratifications derived from religion, from morals, from political and civil liberty, from oratory, from instructive and agreeable conversation, from music, dancing, acting, and other similar sources. But an inquiry into the nature and causes of these kinds of wealth would evidently extend beyond the bounds of any single science. If we wish to attain anything like precision in our inquiries, when we treat of wealth, we must narrow the field of inquiry, and draw some line, which will leave us

only those objects, the increase or decrease of which is capable of being estimated with more accuracy.

The line, which it seems most natural to draw, is that which separates material from immaterial objects, or those which are capable of accumulation and definite valuation, from those which rarely admit of these processes, and never in such a degree as to afford useful practical conclusions.

Adam Smith has nowhere given a very regular and formal definition of wealth; but that the meaning which he attaches to the term is confined to material objects, is, throughout his work, sufficiently manifest. His prevailing description of wealth may be said to be, "the annual produce of land and labour." The objections to it, as a definition, are, that it refers to the sources of wealth before we are told what wealth is, and that it is besides not sufficiently discriminate, as it would include all the useless products of the earth, as well as those which are appropriated and enjoyed by man.

To avoid these objections, and to keep at an equal distance from a too confined or too indiscriminate sense of the term, I should define wealth to be, those *material* objects which are necessary, useful, or agreeable to mankind. And I am inclined to believe that the definition, thus limited, includes nearly all the objects which usually enter into our conceptions when we speak of wealth or riches; an advantage of considerable importance, so long as we retain these terms both in common use, and in the vocabulary of political economy.

It is obviously, indeed, rather a metaphorical than a strict use of the word wealth, to apply it to *every* benefit or gratification of which man is susceptible; and we should hardly be prepared to acknowledge the truth of the proposition which affirmed, that riches were the sole source of human happiness.

It may fairly, therefore, I think, be said, that the wealth spoken of, in the science of political economy, is confined to material objects.

A country will therefore be rich or poor according to the abundance or scarcity with which these material objects are

supplied, compared with the extent of territory; and the people will be rich or poor according to the abundance with which they are supplied, compared with the population.

M'CULLOCH.

Political Economy *is the science of the laws which regulate the production, distribution, and consumption of those articles or products which have exchangeable value, and are either necessary, useful, or agreeable to man.*

Political Economy has been frequently defined to be "the science which treats of the production, distribution, and consumption of *wealth;*" and if by wealth be meant those articles or products which possess exchangeable value, and are either necessary, useful, or agreeable, the definition is quite unexceptionable. But if we understand the term wealth in a more enlarged or contracted sense, it will be faulty. Mr. Malthus, for example, has supposed wealth to be identical with "those *material* objects which are necessary, useful, and agreeable to man." And though we should waive any objections which may, perhaps, be justly taken to the introduction of the qualifying phrase *material* objects, still it is evident that the definition is essentially defective. In proof of this, it is sufficient to mention that atmospheric air, and the heat of the sun, are both material, necessary, useful, and agreeable products; though their independent existence, and their incapacity of special appropriation, by depriving them of exchangeable value, excludes them from the investigations of the science of political economy.

Dr. Smith has not explicitly stated what was the precise meaning attached by him to the term wealth; but he most commonly describes it to be "the annual produce of land and labour." Mr. Malthus, however, has justly objected to this definition, that it refers to the sources of wealth before we know what wealth is, and that it includes all the useless products of the earth, as well as those which are appropriated and enjoyed by man.

The definition now given does not seem liable to any of

these objections. By confining the science to a discussion of the laws regulating the production, distribution, and consumption of articles or products possessing exchangeable value, we give it a distinct and definite object. When thus properly restricted, the researches of the economist occupy a field which is exclusively his own. He runs no risk of wasting his time in inquiries which belong to other sciences, or in unprofitable investigations respecting the production and consumption of articles which cannot be appropriated, and which exist independently of human industry.

Capacity of appropriation is indispensably necessary to constitute an article wealth. And I shall invariably employ this term to distinguish those products only which are obtained by the intervention of human labour, and which, consequently, can be appropriated by one individual, and consumed exclusively by him. A man is not said to be wealthy because he has an indefinite command over atmospheric air, for this is a privilege which he enjoys in common with every other man, and which can form no ground of distinction; but he is said to be wealthy, according to the degree in which he can afford to command those necessaries, conveniences, and luxuries which are not the gifts of nature, but the products of human industry.

The object of Political Economy is to point out the means by which the industry of man may be rendered most productive of those necessaries, comforts, and enjoyments which constitute *wealth;* to ascertain the proportions in which this wealth is divided among the different classes of the community; and the mode in which it may be most advantageously consumed. The intimate connection of such a science with all the best interests of society is abundantly obvious. There is no other, indeed, which comes so directly home to the every-day occupations and business of mankind. The consumption of wealth is indispensable to existence; but the eternal law of Providence has decreed that wealth can only be procured by industry—that man must earn his bread in the sweat of his brow. This twofold necessity renders the production of wealth a

constant and principal object of the exertions of the vast majority of the human race; has subdued the natural aversion of man from labour; given activity to indolence; and armed the patient hand of industry with zeal to undertake, and patience to overcome, the most irksome and disagreeable tasks.

But when wealth is thus necessary, when the desire to acquire it is sufficient to induce us to submit to the greatest privations, the science which teaches the means by which its acquisition may be most effectually promoted—by which we may be enabled to obtain the greatest possible amount of wealth with the least possible difficulty—must certainly deserve to be carefully studied and meditated. There is no class of persons to whom this knowledge can be considered as either extrinsic or superfluous. There are some, doubtless, to whom it may be of more advantage than to others; but it is of the utmost consequence to all. The prices of all sorts of commodities—the profits of the manufacturer and merchant, the rent of the landlord, the wages of the day-labourer, and the incidence and effect of taxes and regulations,—all depend on principles which Political Economy can alone ascertain and elucidate.

Neither is the acquisition of wealth necessary only because it affords the means of subsistence: without it we should never be able to cultivate and improve our higher and nobler faculties. Where wealth has not been amassed, the mind being constantly occupied in providing for the immediate wants of the body, no time is left for its culture; and the views, sentiments, and feelings of the people become alike contracted, selfish, and illiberal. The possession of a decent competence, or the being able to indulge in other pursuits than those which directly tend to satisfy our animal wants and desires, is necessary to soften the selfish passions; to improve the moral and intellectual character, and to ensure any considerable proficiency in liberal studies and pursuits. And hence, the acquisition of wealth is not desirable merely as the means of procuring immediate and direct gratifications, but as being indispensably necessary to the advance-

ment of society in civilisation and refinement. Without the tranquillity and leisure afforded by the possession of accumulated wealth, those speculative and elegant studies which expand and enlarge our views, purify our taste, and lift us higher in the scale of being, can never be successfully prosecuted. It is certain, indeed, that the comparative barbarism and refinement of nations depend more on the comparative amount of their wealth than on any other circumstance. A poor people are never refined, nor a rich people ever barbarous. It is impossible to name a single nation which has made any distinguished figure, either in philosophy or the fine arts, without having been at the same time celebrated for its wealth. The age of Pericles and Phidias was the flourishing age of Grecian, as the age of Petrarch and Raphael was of Italian commerce. The influence of wealth is, in this respect, almost omnipotent. It raised Venice from the bosom of the deep, and made the desert and sandy islands on which she is built, and the unhealthy swamps of Holland, the favoured abodes of literature, of science, and of art. In our own country its effects have been equally striking. The number and eminence of our philosophers, poets, scholars, and artists have ever increased proportionately to the increase of the public wealth, or to the means of rewarding and honouring their labours.

The possession of wealth being thus indispensable to individual existence and comfort, and to the advancement of nations in civilisation, it may justly excite our astonishment that so few efforts should have been made to investigate its sources; and that the study of Political Economy is not even yet considered as forming a principal part in a comprehensive system of education. A variety of circumstances might be mentioned, as occasioning the unmerited neglect of this science; but of these the institution of *domestic slavery* in the ancient world, and the darkness of the period when the plan of education in the universities of modern Europe was first formed, seem to have had the greatest influence.

At the establishment of our universities, the clergy were

almost the exclusive possessors of the little knowledge then in existence. It was natural, therefore, that their peculiar feelings and pursuits should have a marked influence on the plans of education they were employed to frame. Grammar, rhetoric, logic, school divinity, and civil law comprised the whole course of study. To have appointed professors to explain the principles of commerce, and the means by which labour might be rendered most effective, would have been considered as equally superfluous and degrading to the dignity of science. The ancient prejudices against commerce, manufactures, and luxury retained a powerful influence in the middle ages. None were then possessed of any clear ideas concerning the true sources of national wealth, happiness, and prosperity. The intercourse among states was extremely limited, and was maintained rather by marauding incursions, and piratical expeditions in search of plunder, than by a commerce founded on the gratification of real and reciprocal wants.

These circumstances sufficiently account for the late rise of this science, and the little attention paid to it up to a very recent period. And since it has become an object of more general attention and inquiry, the differences which have subsisted among the most eminent of its professors have proved exceedingly unfavourable to its progress, and have generated a disposition to distrust the best established conclusions of the science.

Such inquiries cannot fail to excite the deepest interest in every ingenuous mind. The laws by which the motions of the celestial bodies are regulated, and over which man cannot exercise the smallest influence or control, are yet universally allowed to be noble and rational objects of study. But the laws which regulate the movements of human society—which cause one people to advance in opulence and refinement, at the same time that another is sinking into the abyss of poverty and barbarism—have an infinitely stronger claim on our attention: both because they relate to objects which exercise a direct influence over

human happiness, and because their effects may be, and in fact are, continually modified by human interference. National prosperity does not depend nearly so much on advantageous situation, salubrity of climate, or fertility of soil, as on the adoption of measures fitted to excite the inventive powers of genius, and to give perseverance and activity to industry. The establishment of a wise system of public economy can compensate for every other deficiency: it can render regions naturally inhospitable, barren, and unproductive, the comfortable abodes of an elegant and refined, a crowded and wealthy population; but where it is wanting, the best gifts of nature are of no value; and countries possessed of the greatest capacities of improvement, and abounding in all the materials necessary for the production of wealth, with difficulty furnish a miserable subsistence to hordes distinguished only by their ignorance, barbarism, and wretchedness.

The once prevalent opinion, that wealth consists exclusively of Gold and Silver, naturally grew out of the circumstance of the money of all civilised countries being almost entirely formed of these metals. Having been used both as standards whereby to measure the relative value of different commodities, and as the equivalents for which they were most frequently exchanged, gold and silver, or money, acquired a factitious importance, not in the estimation of the vulgar only, but in that of persons of the greatest discernment. The simple and decisive consideration, that all buying and selling is really nothing more than the bartering of one *commodity* for another—of a certain quantity of corn or cloth, for example, for a certain quantity of gold or silver, and *vice versâ*—was entirely overlooked. The attention was gradually transferred from the *money's worth* to the money itself; and the wealth of individuals and of states was measured, not by the abundance of their disposable products—by the quantity and value of the commodities with which they could afford to purchase the precious metals—but by the quantity of these metals actually in their possession. And hence the policy, as

obvious as it was universal, of attempting to increase the amount of national wealth by forbidding the exportation of gold and silver, and encouraging their importation.

The extraordinary extension of commerce during the fifteenth and sixteenth centuries occasioned the substitution of a more refined and complex system for increasing the supply of the precious metals, in place of the coarse and vulgar one that had previously obtained. The establishment of a direct intercourse with India by the Cape of Good Hope, seems to have had the greatest influence in effecting this change. The precious metals have always been among the most advantageous articles of export to the East: and notwithstanding the old and deeply rooted prejudices against their exportation, the East India Company obtained, when first instituted, in 1600, leave annually to export foreign coins, or bullion, of the value of £30,000; on condition, however, that they should import, within six months after the termination of every voyage, except the first, as much gold and silver as should together be equal to the value of the silver exported by them. But the enemies of the Company contended, that this condition was not complied with; and that it was *contrary to all principle*, and highly injurious to the public interests, to permit gold and silver to be sent out of the kingdom. The merchants, and others interested in the support of the Company, could not controvert the reasonings of their opponents, without openly impugning the ancient policy of absolutely preventing the exportation of the precious metals. They did not, however, venture to contend, nor is there indeed any good reason for thinking that it really occurred to them, that the exportation of bullion to the East was advantageous, on the ground that the commodities purchased by it were of greater value in England. But they contended, that the exportation of bullion to India was advantageous, because the commodities imported from thence were chiefly re-exported to other countries, from which a much greater quantity of bullion was obtained than had been required to pay them in India. Mr. T. Mun, the ablest of the Company's advocates,

ingeniously compares the operations of the merchant in conducting a trade carried on by the exportation of gold and silver, to the seed-time and harvest of agriculture. "If we only behold," says he, "the actions of the husbandman in the seed-time, when he casteth away much good corn into the ground, we shall account him rather a madman than a husbandman. But when we consider his labours in the harvest, which is the end of his endeavours, we shall find the worth and plentiful increase of his actions."

Such was the origin of what had been called the MERCANTILE SYSTEM. And, when compared with the previous prejudice—for it hardly deserves the name of system—which wholly interdicted the exportation of gold and silver, it must be allowed that its adoption was a considerable step in the progress to sounder opinions. The supporters of the mercantile system, like their predecessors, held that gold and silver alone constituted wealth; but they thought that sound policy dictated the propriety of allowing their exportation to foreigners, provided the commodities imported in their stead, or a portion of them, were afterwards sold to other foreigners for a greater amount of bullion than had been originally laid out on their purchase; or, provided the importation of the foreign commodities caused the exportation of so much more native produce than would otherwise have been exported, as would more than equal their cost. These opinions necessarily led to the celebrated doctrine of the *Balance of Trade*. It was obvious that the precious metals could not be imported into countries destitute of mines, except in return for exported commodities; and the grand object of the supporters of the mercantile system was to monopolise the largest possible supply of the precious metals, by the adoption of various complex schemes for encouraging exportation, and restraining the importation of almost all products, except gold and silver, that were not intended for future exportation. In consequence, the *excess of the value of the Exports over that of the Imports* came to be considered as being at once the sole cause and

measure of the progress of a country in the career of wealth. This excess, it was taken for granted, could not be balanced otherwise than by the importation of an equal value of gold and silver, or of the only real wealth it was then supposed a country could possess.

The gain on our foreign commerce is here supposed to consist exclusively of the gold and silver which, it is taken for granted, must necessarily be brought home in payment of the excess of the exported commodities. Mr. Mun lays no stress whatever on the circumstance of foreign commerce enabling us to obtain an infinite variety of useful and agreeable products, which it would either have been impossible for us to produce at all, or to produce so cheaply at home. We are desired to consider all this accession of wealth—all the vast addition made by commerce to the motives which stimulate, and to the comforts and enjoyments which reward the labour of the industrious—as *nothing*, and to fix our attention exclusively on the balance of £200,000 of gold and silver! This is much the same as if we were desired to estimate the comfort and advantage derived from a suit of clothes, by the number and glare of the metal buttons by which they are fastened. And yet the rule for estimating the advantageousness of foreign commerce, which Mr. Mun has here given, was long regarded by the generality of merchants and practical statesmen as infallible; and such is the inveteracy of ancient prejudices, that we are still annually congratulated on the excess of our exports over our imports!

It is to the celebrated M. Quesnay, a physician, attached to the court of Louis XV., that the merit unquestionably belongs of having first attempted to investigate and analyse the sources of wealth, *with the intention of ascertaining the fundamental principles of Political Economy;* and who thus gave it a systematic form, and raised it to the rank of a science. Quesnay's father was a small proprietor, and having been educated in the country, he was naturally inclined to regard agriculture with more than ordinary partiality. At an early period of his life he had been struck

with its depressed state in France, and had set himself to discover the causes which prevented its making that progress which the industry of the inhabitants, the fertility of the soil, and the excellence of the climate seemed to ensure. In the course of this inquiry he speedily discovered that the prevention of the exportation of corn to foreign countries, and the preference given by the regulations of Colbert to the manufacturing and commercial classes over the agriculturists, formed the most powerful obstacles to the progress and improvement of agriculture. But Quesnay was not satisfied with exposing the injustice of this preference, and its pernicious consequences. His zeal for the interests of agriculture led him, not merely to place it on the same level with manufactures and commerce, but to raise it above them,—by endeavouring to show that it was the only species of industry which contributed to increase the riches of a nation. Founding on the indisputable fact, that everything that either ministers to our wants or gratifies our desires, must be originally derived from the earth, Quesnay assumed as a self-evident truth, and as the basis of his system, that the *earth is the only source of wealth;* and held that industry was altogether incapable of producing any new value, except when employed in agriculture, including under that term fisheries and mines. His observation of the striking effects of the *vegetative* powers of nature, and his inability to explain the real origin and causes of *rents*, confirmed him in this opinion. The circumstance, that of those who are engaged in industrious undertakings, none but the cultivators of the soil paid rent for the use of *natural agents*, appeared to him an incontrovertible proof that agriculture was the only species of industry which yielded a net surplus (*produit net*) over and above the expenses of production. Quesnay allowed that manufacturers and merchants were highly useful; but, as they realised no net surplus in the shape of rent, he contended they did not add any greater value to the raw material of the commodities they manufactured or carried from place to place, than was just equivalent to the value

of the capital or stock consumed by them during the time they were necessarily engaged in these operations. These principles once established, Quesnay proceeded to divide society into three classes: the *first*, or *productive* class, by whose agency all wealth is produced, consists of the farmers and labourers engaged in agriculture, who subsist on a portion of the produce of the land reserved to themselves as the wages of their labour, and as a reasonable profit on their capital; the *second*, or *proprietary* class, consists of those who live on the rent of the land, or on the *net surplus produce* raised by the cultivators after their necessary expenses have been deducted; and the *third*, or *unproductive* class, consists of manufacturers, merchants, menial servants, etc., whose labour, though exceedingly useful, adds nothing to the national wealth, and who subsist entirely on the wages paid them by the other two classes.

In assuming agriculture to be the only source of wealth, because the matter of which all commodities are composed must be originally derived from the earth, M. Quesnay and his followers mistook altogether the nature of production, and really supposed wealth to consist of matter; whereas, in its natural state, matter is very rarely possessed of immediate and direct utility, and *is always destitute of value.* It is only by means of the *labour* which must be laid out in appropriating matter, and in fitting and preparing it for our use, that it acquires exchangeable value, and becomes wealth. Human industry does not produce wealth by making any additions to the matter of our globe; this being a quantity susceptible neither of augmentation nor diminution. Its real and only effect is to produce wealth *by giving utility to matter already in existence;* and it has been repeatedly demonstrated, that the labour employed in manufactures and commerce is just as productive of utility, and consequently of wealth, as the labour employed in agriculture. It is to be regretted that the friends and disciples of Quesnay, among whom we have to reckon Mirabeau, Mercier de la Riviere, Dupont de Nemours, Saint Peravy, Turgot, and other distinguished individuals, in

France, Italy, and Germany, should, in their zeal for his peculiar doctrines, which they enthusiastically exerted themselves to defend and propagate, have exhibited more of the character of partisans than of (what there is the best reason to think they really were) sincere and honest inquirers after truth. Hence it is that they have always been regarded as a sect, known by the name of *Economists*, or *Physiocrats;*— and that their works are characterised by an unusual degree of sameness.

But, in despite of all these defects, there can be no question that the labours of the French Economists powerfully contributed to accelerate the progress of economical science. In reasoning on subjects connected with national wealth, it was now found to be necessary to subject its sources, and the laws which regulate its production and distribution, to a more accurate and searching analysis. In the course of this examination, it was speedily ascertained that both the mercantile and economical theories were erroneous and defective; and that, to establish the science of Political Economy on a firm foundation, it was necessary to take a much more extensive survey, and to seek for its principles, not in a few partial and distorted facts, or in metaphysical abstractions, but in the connection and relation subsisting among the various phenomena manifested in the progress of civilisation.

At length, in 1776, our illustrious countryman Adam Smith published the *Wealth of Nations*—a work which has done for Political Economy what the Essay of Locke did for the philosophy of mind. In this work the science was, for the first time, treated in its fullest extent; and the fundamental principles, on which the *production* of wealth depend, placed beyond the reach of cavil and dispute. In opposition to the French Economists, Dr. Smith has shown that *labour* is the only source of wealth, and that the wish to augment our fortunes and to rise in the world—a wish that comes with us from the womb, and never leaves us till we go into the grave—is the cause

of wealth being saved and accumulated: he has shown that labour is productive of wealth when employed in manufactures and commerce, as well as when it is employed in the cultivation of the land: he has traced the various means by which labour may be rendered most effective; and has given a most admirable analysis and exposition of the prodigious addition made to its powers by its *division* among different individuals, and by the employment of accumulated wealth, or *capital*, in industrious undertakings. Dr. Smith has also shown, in opposition to the commonly received opinions of the merchants, politicians, and statesmen of his time, that wealth does not consist in the abundance of gold and silver, but in the abundance of the various necessaries, conveniences, and enjoyments of human life: he has shown that it is in every case sound policy, to leave individuals to pursue their own interest in their own way; that, in prosecuting branches of industry advantageous to themselves, they necessarily prosecute such as are, at the same time, advantageous to the public; and that every regulation intended to force industry into particular channels, or to determine the species of commercial intercourse to be carried on between different parts of the same country, or between distant and independent countries, is impolitic and pernicious—injurious to the rights of individuals—and adverse to the progress of *real* opulence and lasting prosperity.

J. S. MILL.

Writers on Political Economy profess to teach, or to investigate, the nature of Wealth, and the laws of its production and distribution: including, directly or remotely, the operation of all the causes by which the condition of mankind, or of any society of human beings, in respect to this universal object of human desire, is made prosperous or the reverse. Not that any treatise on Political Economy can discuss or even enumerate all

these causes; but it undertakes to set forth as much as is known of the laws and principles according to which they operate.

Every one has a notion, sufficiently correct for common purposes, of what is meant by wealth. The inquiries which relate to it are in no danger of being confounded with those relating to any other of the great human interests. All know that it is one thing to be rich, another thing to be enlightened, brave, or humane; that the questions how a nation is made wealthy, and how it is made free, or virtuous, or eminent in literature, in the fine arts, in arms, or in polity, are totally distinct inquiries. Those things, indeed, are indirectly connected, and react upon one another. A people has sometimes become free, because it had first grown wealthy; or wealthy, because it had first become free. The creed and laws of a people act powerfully upon their economical condition; and this again, by its influence on their mental development and social relations, reacts upon their creed and laws. But though the subjects are in very close contact, they are essentially different, and have never been supposed to be otherwise.

It is no part of the design of this treatise to aim at metaphysical nicety of definition, where the ideas suggested by a term are already as determinate as practical purposes require. But, little as it might be expected that any mischievous confusion of ideas could take place on a subject so simple as the question, what is to be considered as wealth, it is matter of history that such confusion of ideas has existed—that theorists and practical politicians have been equally, and at one period universally, infected by it, and that for many generations it gave a thoroughly false direction to the policy of Europe. I refer to the set of doctrines designated, since the time of Adam Smith, by the appellation of the Mercantile System.

While this system prevailed, it was assumed, either expressly or tacitly, in the whole policy of nations, that wealth consisted solely of money; or of the precious

metals, which, when not already in the state of money, are capable of being directly converted into it. According to the doctrines then prevalent, whatever tended to heap up money or bullion in a country added to its wealth. Whatever sent the precious metals out of a country impoverished it. If a country possessed no gold or silver mines, the only industry by which it could be enriched was foreign trade, being the only one which could bring in money. Any branch of trade which was supposed to send out more money than it brought in, however ample and valuable might be the returns in another shape, was looked upon as a losing trade. Exportation of goods was favoured and encouraged (even by means extremely onerous to the real resources of the country), because the exported goods being stipulated to be paid for in money, it was hoped that the returns would actually be made in gold and silver. Importation of anything, other than the precious metals, was regarded as a loss to the nation of the whole price of the things imported; unless they were brought in to be re-exported at a profit, or unless, being the materials or instruments of some industry practised in the country itself, they gave the power of producing exportable articles at smaller cost, and thereby effecting a larger exportation. The commerce of the world was looked upon as a struggle among nations, which could draw to itself the largest share of the gold and silver in existence; and in this competition no nation could gain anything, except by making others lose as much, or, at the least, preventing them from gaining it.

In common discourse, wealth is always expressed in money. If you ask how rich a person is, you are answered that he has so many thousand pounds. All income and expenditure, all gains and losses, everything by which one becomes richer or poorer, are reckoned as the coming in or going out of so much money. It is true that in the inventory of a person's fortune are included, not only the money in his actual possession, or due to him, but all other articles of value. These, however, enter, not in their own

character, but in virtue of the sums of money which they would sell for; and if they would sell for less, their owner is reputed less rich, though the things themselves are precisely the same. It is true, also, that people do not grow rich by keeping their money unused, and that they must be willing to spend in order to gain. Those who enrich themselves by commerce, do so by giving money for goods as well as goods for money; and the first is as necessary a part of the process as the last. But a person who buys goods for the purposes of gain, does so to sell them again for money, and in the expectation of receiving more money than he laid out: to get money, therefore, seems even to the person himself the ultimate end of the whole. It often happens that he is not paid in money, but in something else; having bought goods to a value equivalent, which are set off against those he sold. But he accepted these at a money valuation, and in the belief that they would bring in more money eventually than the price at which they were made over to him. A dealer doing a large amount of business, and turning over his capital rapidly, has but a small portion of it in ready money at any one time. But he only feels it valuable to him as it is convertible into money: he considers no transaction closed until the net result is either paid or credited in money: when he retires from business it is into money that he converts the whole, and not until then does he deem himself to have realised his gains: just as if money were the only wealth, and money's worth were the only means of attaining it. If it be now asked for what end money is desirable, unless to supply the wants or pleasures of oneself or others, the champion of the system would not be at all embarrassed by the question. True, he would say, these are the uses of wealth, and very laudable uses while confined to domestic commodities, because in that case, by exactly the amount which you expend, you enrich others of your countrymen. Spend your wealth, if you please, in whatever indulgences you have a taste for; but your wealth is not the indulgences, it is the sum of money,

or the annual money income, with which you purchase them.

While there were so many things to render the assumption which is the basis of the Mercantile System plausible, there is also some small foundation in reason, though a very insufficient one, for the distinction which that system so emphatically draws between money and every kind of other valuable possession. We really, and justly, look upon a person as possessing the advantages of wealth, not in proportion to the useful and agreeable things of which he is in the actual enjoyment, but to his command over the general fund of things useful and agreeable; the power he possesses of providing for any exigency, or obtaining any object of desire. Now, money is itself that power; while all other things, in a civilised state, seem to confer it only by their capacity of being exchanged for money. To possess any other article of wealth, is to possess that particular thing, and nothing else: if you wish for another thing instead of it, you have first to sell it, or to submit to the inconvenience and delay (if not the impossibility) of finding some one who has what you want, and is willing to barter it for what you have. But with money you are at once able to buy whatever things are for sale: and one whose fortune is in money, or in things rapidly convertible into it, seems both to himself and others to possess not any one thing, but all the things which the money places it at his option to purchase. The greatest part of the utility of wealth, beyond a very moderate quantity, is not the indulgences it procures, but the reserved power which its possessor holds in his hands of attaining purposes generally; and this power no other kind of wealth confers so immediately or so certainly as money. It is the only form of wealth which is not merely applicable to some one use, but can be turned at once to any use. And this distinction was the more likely to make an impression upon governments, as it is one of considerable importance to them. A civilised government derives comparatively little advantage from taxes unless it can collect them in

money: and if it has large or sudden payments to make, especially payments in foreign countries for wars or subsidies, either for the sake of conquering or of not being conquered (the two chief objects of national policy until a late period), scarcely any medium of payment except money will serve the purpose. All these causes conspire to make both individuals and governments, in estimating their means, attach almost exclusive importance to money, either *in esse* or *in posse*, and look upon all other things (when viewed as part of their resources) scarcely otherwise than as the remote means of obtaining that which alone, when obtained, affords the indefinite, and at the same time instantaneous, command over objects of desire, which best answers to the idea of wealth.

An absurdity, however, does not cease to be an absurdity when we have discovered what were the appearances which made it plausible; and the Mercantile Theory could not fail to be seen in its true character when men began, even in an imperfect manner, to explore into the foundations of things, and seek their premises from elementary facts, and not from the forms and phrases of common discourse. So soon as they asked themselves what is really meant by money—what it is in its essential characters, and the precise nature of the functions it performs—they reflected that money, like other things, is only a desirable possession on account of its uses; and that these, instead of being, as they delusively appear, indefinite, are of a strictly defined and limited description—namely, to facilitate the distribution of the produce of industry according to the convenience of those among whom it is shared. Further consideration showed that the uses of money are in no respect promoted by increasing the quantity which exists and circulates in a country; the service which it performs being as well rendered by a small as by a large aggregate amount. Two million quarters of corn will not feed so many persons as four millions; but two millions of pounds sterling will carry on as much traffic, will buy and sell as many commodities, as four millions, though at lower

nominal prices. Money, as money, satisfies no want; its worth to any one, consists in its being a convenient shape in which to receive his incomings of all sorts, which incomings he afterwards, at the times which suit him best, converts into the forms in which they can be useful to him. Great as the difference would be between a country with money, and a country altogether without it, it would be only one of convenience; a saving of time and trouble, like grinding by water power instead of by hand; or (to use Adam Smith's illustration) like the benefit derived from roads; and to mistake money for wealth, is the same sort of error as to mistake the highway which may be the easiest way of getting to your house or lands, for the house and lands themselves.

Money, being the instrument of an important public and private purpose, is rightly regarded as wealth; but everything else which serves any human purpose, and which nature does not afford gratuitously, is wealth also. To be wealthy is to have a large stock of useful articles, or the means of purchasing them. Everything forms therefore a part of wealth, which has a power of purchasing; for which anything useful or agreeable would be given in exchange. Things for which nothing could be obtained in exchange, however useful or necessary they may be, are not wealth in the sense in which the term is used in Political Economy. Air, for example, though the most absolute of necessaries, bears no price in the market, because it can be obtained gratuitously; to accumulate a stock of it would yield no profit or advantage to any one; and the laws of its production and distribution are the subject of a very different study from Political Economy. But though air is not wealth, mankind are much richer by obtaining it gratis, since the time and labour which would otherwise be required for supplying the most pressing of all wants, can be devoted to other purposes. It is possible to imagine circumstances in which air would be a part of wealth. If it became customary to sojourn long in places where the air does not naturally penetrate,

as in diving-bells sunk in the sea, a supply of air artificially furnished would, like water conveyed into houses, bear a price: and if from any revolution in nature the atmosphere became too scanty for the consumption, or could be monopolised, air might acquire a very high marketable value. In such a case, the possession of it, beyond his own wants, would be, to its owner, wealth; and the general wealth of mankind might at first sight appear to be increased, by what would be so great a calamity to them. The error would lie in not considering, that however rich the possessor of air might become at the expense of the rest of the community, all persons else would be poorer by all that they were compelled to pay for what they had before obtained without payment.

This leads to an important distinction in the meaning of the word wealth, as applied to the possessions of an individual, and to those of a nation, or of mankind. In the wealth of mankind, nothing is included which does not of itself answer some purpose of utility or pleasure. To an individual, anything is wealth, which, though useless in itself, enables him to claim from others a part of their stock of things useful or pleasant. Take, for instance, a mortgage of a thousand pounds on a landed estate. This is wealth to the person to whom it brings in a revenue, and who could perhaps sell it in the market for the full amount of the debt. But it is not wealth to the country; if the engagement were annulled, the country would be neither poorer nor richer. The mortgagee would have lost a thousand pounds, and the owner of the land would have gained it. Speaking nationally, the mortgage was not itself wealth, but merely gave A a claim to a portion of the wealth of B. It was wealth to A, and wealth which he could transfer to a third person; but what he so transferred was in fact a joint ownership, to the extent of a thousand pounds, in the land of which B was nominally the sole proprietor. The position of fund-holders, or owners of the public debt of a country, is similar. They are mortgagees on the general wealth of the country. The

cancelling of the debt would be no destruction of wealth, but a transfer of it: a wrongful abstraction of wealth from certain members of the community, for the profit of the government, or of the tax-payers. Funded property therefore cannot be counted as part of the national wealth. This is not always borne in mind by the dealers in statistical calculations. For example, in estimates of the gross income of the country, founded on the proceeds of the income-tax, incomes derived from the funds are not always excluded; though the tax-payers are assessed on their whole nominal income, without being permitted to deduct from it the portion levied from them in taxation to form the income of the fund-holder. In this calculation, therefore, one portion of the general income of the country is counted twice over, and the aggregate amount made to appear greater than it is by almost thirty millions. A country, however, may include in its wealth all stock held by its citizens in the funds of foreign countries, and other debts due to them from abroad. But even this is only wealth to them by being a part ownership in wealth held by others. It forms no part of the collective wealth of the human race. It is an element in the distribution, but not in the composition, of the general wealth.

It has been proposed to define wealth as signifying "instruments"; meaning not tools and machinery alone, but the whole accumulation possessed by individuals or communities, of means for the attainment of their ends. Thus, a field is an instrument, because it is a means to the attainment of corn. Corn is an instrument, being a means to the attainment of flour. Flour is an instrument, being a means to the attainment of bread. Bread is an instrument, as a means to the satisfaction of hunger and to the support of life. Here we at last arrive at things which are not instruments, being desired on their own account, and not as mere means to something beyond. This view of the subject is philosophically correct; or rather, this mode of expression may be usefully employed along with others, not as conveying a different view of the

subject from the common one, but as giving more distinctness and reality to the common view. It departs, however, too widely from the custom of language, to be likely to obtain general acceptance, or to be of use for any other purpose than that of occasional illustration.

Another example of a possession which is wealth to the person holding it, but not wealth to the nation, or to mankind, is slaves. It is by a strange confusion of ideas that slave property (as it is termed) is counted, at so much per head, in an estimate of the wealth, or of the capital, of the country which tolerates the existence of such property. If a human being, considered as an object possessing productive powers, is part of the national wealth when his powers are owned by another man, he cannot be less a part of it when they are owned by himself. Whatever he is worth to his master is so much property abstracted from himself, and its abstraction cannot augment the possessions of the two together, or of the country to which they both belong. In propriety of classification, however, the people of a country are not to be counted in its wealth. They are that for the sake of which its wealth exists. The term wealth is wanted to denote the desirable objects which they possess, not inclusive of, but in contradistinction to, their own persons. They are not wealth to themselves, though they are means of acquiring it.

Wealth, then, may be defined, all useful or agreeable things which possess exchangeable value; or, in other words, all useful or agreeable things except those which can be obtained, in the quantity desired, without labour or sacrifice. To this definition, the only objection seems to be, that it leaves in uncertainty a question which has been much debated—whether what are called immaterial products are to be considered as wealth: whether, for example, the skill of a workman, or any other natural or acquired power of body or mind, shall be called wealth, or not: a question, not of very great importance.

These things having being premised respecting wealth, we shall next turn our attention to the extraordinary differences

in respect to it, which exist between nation and nation, and between different ages of the world; differences both in the quantity of wealth, and in the kind of it; as well as in the manner in which the wealth existing in the community is shared among its members.

These remarkable differences in the state of different portions of the human race, with regard to the production and distribution of wealth, must, like all other phenomena, depend on causes. And it is not a sufficient explanation to ascribe them exclusively to the degrees of knowledge, possessed at different times and places, of the laws of nature and the physical arts of life. Many other causes co-operate; and that very progress and unequal distribution of physical knowledge, are partly the effects, as well as partly the causes, of the state of the production and distribution of wealth.

In so far as the economical condition of nations turns upon the state of physical knowledge, it is a subject for the physical sciences, and the arts founded on them. But in so far as the causes are moral or psychological, dependent on institutions and social relations, or on the principles of human nature, their investigation belongs not to physical, but to moral and social science, and is the object of what is called Political Economy.

The production of wealth; the extraction of the instruments of human subsistence and enjoyment from the materials of the globe, is evidently not an arbitrary thing. It has its necessary conditions. Of these, some are physical, depending on the properties of matter, and on the amount of knowledge of those properties possessed at the particular place and time. These Political Economy does not investigate, but assumes; referring for the grounds, to physical science or common experience. Combining with these facts of outward nature other truths relating to human nature, it attempts to trace the secondary or derivative laws, by which the production of wealth is determined; in which must lie the explanation of the diversities of riches and poverty in the present and past, and

the ground of whatever increase in wealth is reserved for the future.

Unlike the laws of Production, those of Distribution are partly of human institution: since the manner in which wealth is distributed in any given society, depends on the statutes or usages therein obtaining. But though governments or nations have the power of deciding what institutions shall exist, they cannot arbitrarily determine how those institutions shall work. The conditions on which the power they possess over the distribution of wealth is dependent, and the manner in which the distribution is affected by the various modes of conduct which society may think fit to adopt, are as much a subject for scientific inquiry as any of the physical laws of nature.

SENIOR.

The earlier writers who assumed the name of Political Economists avowedly treated not of Wealth but of Government. Mercier de la Riviere entitled his Work *The Natural and Essential Organisation of Society*, and professed to propose an organisation "which shall necessarily produce all the happiness that can be enjoyed on earth." Sir James Steuart states, that "the principal object of the science is to secure a certain fund of subsistence for all the inhabitants, to obviate every circumstance which may render it precarious, and to provide everything necessary for supplying the wants of the society." The modern Continental writers have in general entered into an equally extensive inquiry. "Political Economy," says M. Storch, "is the science of the natural laws which determine the prosperity of nations, that is to say, their wealth and their civilisation." M. Sismondi considers "the physical welfare of man, so far as it can be the work of government, as the object of Political Economy." "Political Economy," says M. Say, "is the economy of society; a science combining the results of our observations on the nature and functions of the different parts of the social body." The modern

writers of the English school have in general professed to limit their attention to the theory of Wealth; but some of the most eminent among them, after having expressed their intention to confine themselves within what appears to us to be their proper province, have invaded that of the general legislator or the statesman.

We believe that by confining our own and the reader's attention to the Nature, Production, and Distribution of Wealth, we shall produce a more clear, and complete, and instructive work than if we allowed ourselves to wander into the more interesting and more important, but far less definite, fields by which the comparatively narrow path of Political Economy is surrounded. The questions: To what extent and under what circumstances the possession of Wealth is, on the whole, beneficial or injurious to its possessor, or to the society of which he is a member? What distribution of Wealth is most desirable in each different state of society? and, What are the means by which any given country can facilitate such a distribution?—all these are questions of great interest and difficulty, but no more form part of the science of Political Economy, in the sense in which we use that term, than navigation forms part of the science of astronomy. The principles supplied by Political Economy are indeed necessary elements in their solution, but they are not the only, or even the most important elements.

The business of a political economist is neither to recommend nor to dissuade, but to state general principles, which it is fatal to neglect, but neither advisable, nor perhaps practicable, to use as the sole, or even the principal, guides in the actual conduct of affairs. In the meantime the duty of each individual writer is clear. Employed as he is upon a science in which error, or even ignorance, may be productive of such intense and such extensive mischief, he is bound, like a juryman, to give deliverance true according to the evidence, and allow neither sympathy with indigence, nor disgust at profusion or at avarice—neither reverence for existing institutions, nor detestation

of existing abuses—neither love of popularity, nor of paradox, nor of system, to deter him from stating what he believes to be the facts, or from drawing from those facts what appear to him to be the legitimate conclusions. To decide in each case how far those conclusions are to be acted upon, belongs to the art of government, an art to which Political Economy is only one of many subservient sciences; which involves the consideration of motives, of which the desire for wealth is only one among many, and aims at objects to which the possession of wealth is only a subordinate means.

Having stated that the science which we propose to consider, and to which we apply the term Political Economy, is the science which treats of the Nature, the Production, and the Distribution of Wealth, our first business is to explain the meaning in which we use the word Wealth.

Under that term we comprehend all those things, and those things only, which are transferable, are limited in supply, and are directly or indirectly productive of pleasure or preventive of pain; or, to use an equivalent expression, which are susceptible of *exchange* (using the word exchange to denote hiring as well as absolute purchase); or, to use a third equivalent expression, which have *Value.*

CHAPTER II.

CAUSES OF IMPROVEMENT IN THE PRODUCTIVITY OF LABOUR.

JAMES MILL.

It is found that the agency of man can be traced to very simple elements. He can do nothing more than produce motion. He can move things towards one another, and he can separate them from one another: the properties of matter perform all the rest. He moves ignited iron to a portion of gunpowder, and an explosion takes place. He moves the seed to the ground, and vegetation commences. He separates the plant from the ground, and vegetation ceases. Why, or how, these effects take place, he is ignorant. He has only ascertained, by experience, that if he perform such and such motions, such and such events will follow. In strictness of speech, it is matter itself which produces the effects. All that men can do is to place the objects of nature in a certain position. The tailor when he makes a coat, the farmer when he produces corn, do but the same thing. Each performs a set of motions; and the properties of matter do the rest. It would be absurd to ask, to which of any two effects the properties of matter contribute the most; seeing they contribute everything, after certain portions of matter are placed in a certain position.

It is easy to discover that the source from which capital is ultimately derived, is labour. Production of necessity begins with the hands, and nothing else, of the labourer. There can be no instrument till it is made; and the first instrument had no previous instrument to be made with.

The first portion of capital, therefore, was the result of pure labour, without the co-operation of capital.

Speedily, however, after the first instrument which increased the productive powers of labour, as the bow of the huntsman, had been made, another instrument would be made to assist in the formation of the former, as a knife to aid in the formation of the bow, and then capital first begins to be the result of labour, and of capital conjoined.

J. S. MILL.

Nature, however, does more than supply materials; she also supplies powers. A workman takes a stalk of the flax or hemp plant, splits it into separate fibres, twines together several of these fibres with his fingers, aided by a simple instrument called a spindle; having thus formed a thread, he lays many such threads side by side, and places other similar threads directly across them, so that each passes alternately over and under those which are at right angles to it; this part of the process being facilitated by an instrument called a shuttle. He has now produced a web of cloth, either linen or sackcloth, according to the material. He is said to have done this by hand, no natural force being supposed to have acted in concert with him. But by what force is each step of this operation rendered possible, and the web, when produced, held together? By the tenacity, or force of cohesion of the fibres: which is one of the forces in nature, and which we can measure exactly against other mechanical forces, and ascertain how much of any of them it suffices to neutralise or counterbalance.

If we examine any other case of what is called the action of man upon nature, we shall find in like manner that the powers of nature, or in other words the properties of matter, do all the work, when once objects are put into the right position. This one operation, of putting things into fit places for being acted upon by their own internal forces, and by those residing in other natural objects, is all that man does, or can do, with matter. He only moves one

thing to or from another. He moves a seed into the ground; and the natural forces of vegetation produce in succession a root, a stem, leaves, flowers, and fruit. He moves an axe through a tree, and it falls by the natural force of gravitation; he moves a saw through it, in a particular manner, and the physical properties by which a softer substance gives way before a harder, make it separate into planks, which he arranges in certain positions, with nails driven through them, or adhesive matter between them, and produces a table, or a house. He moves a spark to fuel, and it ignites, and by the force generated in combustion it cooks the food, melts or softens the iron, converts into beer or sugar the malt or cane-juice, which he has previously moved to the spot. He has no other means of acting on matter than by moving it. Motion, and resistance to motion, are the only things which his muscles are constructed for. By muscular contraction he can create a pressure on an outward object, which, if sufficiently powerful, will set it in motion, or if it be already moving, will check or modify or altogether arrest its motion, and he can do no more. But this is enough to have given all the command which mankind have acquired over natural forces immeasurably more powerful than themselves; a command which, great as it is already, is without doubt destined to become indefinitely greater. He exerts this power either by availing himself of natural forces in existence, or by arranging objects in those mixtures and combinations by which natural forces are generated; as when by putting a lighted match to fuel, and water into a boiler over it, he generates the expansive force of steam, a power which has been made so largely available for the attainment of human purposes.

Labour, then, in the physical world, is always and solely employed in putting objects in motion; the properties of matter, the laws of nature, do the rest. The skill and ingenuity of human beings are chiefly exercised in discovering movements, practicable by their powers, and capable of bringing about the effects which they desire. But, while

movement is the only effect which man can immediately and directly produce by his muscles, it is not necessary that he should produce directly by them all the movements which he requires. The first and most obvious substitute is the muscular action of cattle: by degrees the powers of inanimate nature are made to aid in this too, as by making the wind, or water, things already in motion, communicate a part of their motion to the wheels, which before that invention were made to revolve by muscular force. This service is extorted from the powers of wind and water by a set of actions, consisting like the former in moving certain objects into certain positions in which they constitute what is termed a machine; but the muscular action necessary for this is not constantly renewed, but performed once for all, and there is on the whole a great economy of labour.

Some writers have raised the question, whether nature gives more assistance to labour in one kind of industry or in another; and have said that in some occupations labour does most, in others nature most. In this, however, there seems much confusion of ideas. The part which nature has in any work of man, is indefinite and incommensurable. It is impossible to decide that in any one thing nature does more than in any other. One cannot even say that labour does less. Less labour may be required; but if that which is required is absolutely indispensable, the result is just as much the product of labour as of nature. When two conditions are equally necessary for producing the effect at all, it is unmeaning to say that so much of it is produced by one and so much by the other; it is like attempting to decide which half of a pair of scissors has most to do in the act of cutting; or which of the factors, five and six, contributes most to the production of thirty. The form which this conceit usually assumes, is that of supposing that nature lends more assistance to human endeavours in agriculture, than in manufactures. This notion, held by the French Economistes, and from which Adam Smith was not free, arose from a misconception of the nature of rent. The rent of land being a price paid for a natural agency, and

no such price being paid in manufactures, these writers imagined that since a price was paid, it was because there was a greater amount of service to be paid for: whereas a better consideration of the subject would have shown that the reason why the use of land bears a price is simply the limitation of its quantity, and that if air, heat, electricity, chemical agencies, and the other powers of nature employed by manufacturers, were sparingly supplied, and could, like land, be engrossed and appropriated, a rent could be exacted for them also.

M'CULLOCH.

All the operations of nature and of art are reducible to, and really consist of *transmutations*—of changes of form and of place. By production, in the science of Political Economy, we are not to understand the production of matter, for that is the exclusive attribute of Omnipotence, but the production of *utility*, and consequently of exchangeable value, by appropriating and modifying matter already in existence, so as to fit it to satisfy our wants, and to contribute to our enjoyments. The labour which is thus employed is the only source of wealth. Nature spontaneously furnishes the matter of which all commodities are made; but, until labour has been expended in appropriating matter, or in adapting it to our use, it is wholly destitute of value, and is not, nor ever has been, considered as forming wealth. Place us on the banks of a river, or in an orchard, and we shall infallibly perish, either of thirst or hunger, if we do not, *by an effort of industry*, raise the water to our lips, or pluck the fruit from its parent tree. It is seldom, however, that the mere appropriation of matter is sufficient. In the vast majority of cases, labour is required not only to appropriate it, but also to convey it from place to place, and to give it that peculiar figure and shape, without which it may be totally useless, and incapable of either ministering to our necessities or our comforts. The coal used in our fires is buried deep in the

bowels of the earth, and is absolutely worthless until the labour of the miner has extracted it from the mine, and brought it into a situation where it can be made use of. The stones and mortar of which our houses are built, and the rugged and shapeless materials from which the various articles of convenience and ornament with which they are furnished have been prepared, were, in their original state, alike destitute of value and utility. And of the innumerable variety of animal, vegetable, and mineral products which forms the material of our food and clothes, none were originally serviceable, while many were extremely noxious to man. It is his *labour* that has given them utility, that has subdued their bad qualities, and made them satisfy his wants and minister to his comforts and enjoyments.

It is to labour, therefore, and to labour only, that man owes everything possessed of exchangeable value. Labour is the talisman that has raised him from the condition of the savage—that has changed the desert and the forest into cultivated fields—that has covered the earth with cities and the ocean with ships—that has given us plenty, comfort, and elegance, instead of want, misery, and barbarism.

This fundamental principle once established, it necessarily follows, that the great practical problem involved in that part of the science of Political Economy which treats of the *production* of wealth, must resolve itself into a discussion of the means whereby labour may be rendered most efficient, or whereby *the greatest amount of necessary, useful, and desirable products may be obtained with the least possible quantity of labour.* Every measure that has any tendency to add to the power of labour, or to reduce the cost of the commodities produced by its agency, must add proportionally to our power of obtaining wealth and riches; while every measure or regulation that has any tendency to waste labour, or to raise the cost of producing commodities, must equally lessen this power. This, then, is the simple and decisive test by which we are to judge of the expediency of every measure affecting the wealth of the country,

and of the value of every invention. If they render labour more productive—if they have a tendency to reduce the exchangeable value of commodities, to render them more easily obtainable, and to bring them within the command of a greater portion of society, they must be advantageous; but if their tendency be different they must as certainly be disadvantageous. Considered in this point of view, that great branch of the science of Political Economy which treats of the *production* of wealth, will be found to be abundantly simple, and easily understood.

Labour, according as it is applied to the raising of raw produce—to the fashioning of that raw produce, when raised, into articles of utility, convenience, or ornament—or to the conveyance of raw and wrought produce from one country and place to another—is said to be agricultural, manufacturing, or commercial. An acquaintance with the particular processes, and most advantageous methods, of applying labour in each of these grand departments of industry, forms the peculiar and appropriate study of the agriculturist, manufacturer, and merchant. It is not consistent with the objects of the political economist to enter into the details of particular businesses and professions. He confines himself to an investigation of the means by which labour in general may be rendered most productive, and how its powers may be increased in *all* the departments of industry.

The most careless and inattentive observer of the progress of mankind from poverty to affluence must have early perceived that there are *three* circumstances, without whose conjoint existence and co-operation they could never have emerged from barbarism. The *first*, and most indispensable, is the *security of property*, or a lively and well-founded conviction in the mind of every individual that he will be allowed to dispose at pleasure of the fruits of his labour; the *second* is the introduction of exchange or barter, and the consequent appropriation of particular individuals to particular employments; and the *third* is the accumulation and employment of the produce of previous labour, or, as it

is more commonly termed, of capital, or stock. All the improvements that have ever been made, or that ever can be made, in the great art of producing the necessaries, comforts, and conveniences of human life, must be classed under some one or other of these three heads. It is, therefore, indispensable that principles, so important, and which lie at the very bottom of the science, should be well understood.

Security of property is the first and most indispensable requisite to the production of wealth. Its utility in this respect is, indeed, so obvious and striking, that it has been more or less respected in every country, and in the earliest and rudest periods of society. All have been impressed with the reasonableness of the maxim which teaches that those who sow ought to be permitted to reap—that the labour of a man's body and the work of his hands are to be considered as exclusively his own. No savage horde has ever been discovered in which the principle of *meum* and *tuum* was not recognised. Nothing, it is plain, could ever tempt any one to engage in any laborious employment—he would neither domesticate wild animals, nor clear and cultivate the ground, if, after months and years of toil, when his flocks had become numerous, and his harvests were ripening for the sickle, a stranger were to be allowed to rob him of the produce of his industry. No wonder, therefore, that the utility of some general regulations, which should secure to every individual the peaceable enjoyment of the produce he had raised, and of the ground he had cultivated and improved, suggested itself to the first legislators. The author of the book of Job places those who removed their neighbour's land-marks at the head of his list of wicked men; and some of the earliest profane legislators subjected those who were guilty of this offence to a capital punishment.

ADAM SMITH.

The greatest improvement in the productive powers of labour, and the greater skill, dexterity, and judgment with

which it is anywhere directed or applied, seem to have been the effects of the division of labour.

This great increase of the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances:—I. To the increase of dexterity in every particular workman; II. To the saving of the time which is commonly lost in passing from one species of work to another; III. To the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.

I. The improvement of the dexterity of the workman necessarily increases the quantity of the work he can perform; and the division of labour, by reducing every man's business to some one simple operation, and by making this operation the sole employment of his life, necessarily increases very much the dexterity of the workman. A common smith, who, though accustomed to handle the hammer, has never been used to make nails, if upon some particular occasion he is obliged to attempt it, will scarce, I am assured, be able to make above two or three hundred in a day, and those, too, very bad ones. A smith who has been accustomed to make nails, but whose sole or principal business has not been that of a nailer, can seldom with his utmost diligence make more than eight hundred or a thousand nails in a day. I have seen several boys under twenty years of age who had never exercised any other trade but that of making nails, and who, when they exerted themselves, could make, each of them, upwards of two thousand three hundred nails in a day. The making of a nail, however, is by no means one of the simplest operations. The same person blows the bellows, stirs or mends the fire as there is occasion, heats the iron, and forges every part of the nail. In forging the head, too, he is obliged to change his tools. The different operations into which the making of a pin, or of a metal button, is subdivided, are all of them much more simple, and the dexterity of the person, of whose life it has been the sole business to perform them, is usually much greater. The rapidity with

which some of the operations of those manufactures are performed, exceeds what the human hand could, by those who had never seen them, be supposed capable of acquiring.

II. The advantage which is gained by saving the time commonly lost in passing from one sort of work to another, is much greater than we should at first view be apt to imagine it. It is impossible to pass very quickly from one kind of work to another, that is carried on in a different place, and with quite different tools. A country weaver, who cultivates a small farm, must lose a good deal of time in passing from his loom to the field, and from the field to his loom. When the two trades can be carried on in the same workhouse, the loss of time is no doubt much less. It is even in this case, however, very considerable. A man commonly saunters a little in turning his hand from one sort of employment to another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go it, and for some time he rather trifles than applies to good purpose. The habit of sauntering and of indolent and careless application, which is naturally, or rather necessarily, acquired by every country workman who is obliged to change his work and his tools every half-hour, and to apply his hand in twenty different ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions. Independent, therefore, of his deficiency in point of dexterity, this cause alone must always reduce considerably the quantity of work which he is capable of performing.

III. Everybody must be sensible how much labour is facilitated and abridged by the application of proper machinery. It is unnecessary to give any example. I shall only observe, therefore, that the invention of all those machines by which labour is so much facilitated and abridged, seems to have been originally owing to the division of labour. Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single

object, than when it is dissipated among a great variety of things. But in consequence of the division of labour, the whole of every man's attention comes naturally to be directed towards some one very simple object. It is naturally to be expected, therefore, that some one or other of those who are employed in each particular branch of labour should soon find out easier and readier methods of performing their own particular work, wherever the nature of it admits of such improvement. A great part of the machines made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen, who being each of them employed in some very simple operation, naturally turned their thoughts towards finding out easier and readier methods of performing it. Whoever has been much accustomed to visit such manufactures, must frequently have been shown very pretty machines, which were the inventions of such workmen, in order to facilitate and quicken their own particular part of the work. In the first steam-engines, a boy was constantly employed to open and shut alternately the communication between the boiler and the cylinder, according as the piston either ascended or descended. One of those boys, who loved to play with his companions, observed that, by tying a string from the handle of the valve which opened this communication, to another part of the machine, the valve would open and shut without his assistance, and leave him at liberty to divert himself with his playfellows. One of the greatest improvements that has been made upon this machine, since it was first invented, was in this manner the discovery of a boy who wanted to save his own labour.

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.

Whether this propensity be one of those original principles in human nature, of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to inquire. It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts. Two greyhounds, in running down the same hare, have sometimes the appearance of acting in some sort of concert. Each turns her towards his companion, or endeavours to intercept her when his companion turns her towards himself. This, however, is not the effect of any contract, but of the accidental concurrence of their passions in the same object at that particular time. Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that is yours: I am willing to give this for that. When an animal wants to obtain something either of a man or of another animal, it has no other means of persuasion but to gain the favour of those whose service it requires. A puppy fawns upon its dam, and a spaniel endeavours by a thousand attractions to engage the attention of its master who is at dinner, when it wants to be fed by him. Man sometimes uses the same arts with his brethren, and when he has no other means of engaging them to act according to his inclinations, endeavours by every servile and fawning attention to obtain their good will. He has not time, however, to do this upon every occasion. In civilised society, he stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. In almost every other race of animals each individual, when it is grown up to maturity, is entirely independent, and in its natural state has occasion for the assistance of no other living creature. But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-

love in his favour, and show them that it is for their own advantage to do for him what he requires of them. Who ever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love; and never talk to them of our own necessities, but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely. The charity of well-disposed people, indeed, supplies him with the whole fund of his subsistence. But though this principle ultimately provides him with all the necessaries of life which he has occasion for, it neither does nor can provide him with them as he has occasion for them. The greater part of his occasional wants are supplied in the same manner as those of other people—by treaty, by barter, and by purchase. With the money which one man gives him he purchases food. The old clothes which another bestows upon him he exchanges for other old clothes which suit him better, or for lodging, or for food, or for money, with which he can buy either food, clothes, or lodging, as he has occasion.

As it is by treaty, by barter, and by purchase that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour. In a tribe of hunters or shepherds a particular person makes bows and arrows, for example, with more readiness and dexterity than any other. He frequently exchanges them for cattle or for venison with his companions; and he finds at last that he can in this manner get more cattle and venison, than if he himself went to the field to catch them. From a regard

to his own interest, therefore, the making of bows and arrows grows to be his chief business, and he becomes a sort of armourer. Another excels in making the frames and covers of their little huts or movable houses. He is accustomed to be of use in this way to his neighbours, who reward him in the same manner with cattle and with venison, till at last he finds it his interest to dedicate himself entirely to this employment, and to become a sort of house-carpenter. In the same manner a third becomes a smith, or a brazier; a fourth a tanner or dresser of hides or skins, the principal part of the clothing of savages. And thus the certainty of being able to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he may have occasion for, encourages every man to apply himself to a particular occupation, and to cultivate and to bring to perfection whatever talent or genius he may possess for that particular species of business.

The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause as the effect of the division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature as from habit, custom, and education. When they came into the world, and for the first six or eight years of their existence, they were perhaps very much alike, and neither their parents nor playfellows could perceive any remarkable difference. About that age, or soon after, they come to be employed in very different occupations. The difference of talents comes then to be taken notice of, and widens by degrees, till at last the vanity of the philosopher is willing to acknowledge scarce any resemblance. But without the disposition to truck, barter, and exchange, every man must have procured to himself every necessary and conveniency of life. All had the same duties to perform, the same work

to do, and there could have been no such difference of employment as could alone give occasion to any great difference of talent. As it is this disposition which forms that difference of talents, so remarkable among men of different professions, so it is this same disposition which renders that difference useful. Many tribes of animals, acknowledged to be all of the same species, derive from nature a much more remarkable distinction of genius, than what, antecedent to custom and education, appears to take place among men. By nature a philosopher is not in genius and disposition half so different from a street porter, as a mastiff is from a greyhound, or a greyhound from a spaniel, or this last from a shepherd's dog. Those different tribes of animals, however, though all of the same species, are of scarce any use to one another. The strength of the mastiff is not in the least supported either by the swiftness of the greyhound, or by the sagacity of the spaniel, or by the docility of the shepherd's dog. The effects of those different geniuses and talents, for want of the power or disposition to barter and exchange, cannot be brought into a common stock, and do not in the least contribute to the better accommodation and conveniency of the species. Each animal is still obliged to support and defend itself, separately and independently, and derives no sort of advantage from that variety of talents with which nature has distinguished its fellows. Among men, on the contrary, the most dissimilar geniuses are of use to one another; the different produces of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for.

When the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for. Every

man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society.

But, when the division of labour first began to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange, except the different productions of their respective trades, and the butcher is already provided with all the bread and beer which he has immediate occasion for. No exchange can, in this case, be made between them. He cannot be their merchant, nor they his customers; and they are all of them thus mutually less serviceable to one another. In order to avoid the inconveniency of such situations, every prudent man in every period of society, after the first establishment of the division of labour, must naturally have endeavoured to manage his affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity, such as few people would be likely to refuse in exchange for the produce of their industry.

Many different commodities, it is probable, were successively both thought of and employed for this purpose. In the rude ages of society, cattle are said to have been the common instrument of commerce; and, though they must have been a most inconvenient one, yet in old times we find things were frequently valued according to the number of cattle which had been given in exchange for them. The armour of Diomede, says Homer, cost only nine oxen; but

that of Glaucus cost a hundred oxen. Salt is said to be the common instrument of commerce and exchanges in Abyssinia; a species of shells in some part of the coast of India; dried cod at Newfoundland; tobacco in Virginia; sugar in some of our West Indian colonies; hides or dressed leather in some other countries; and there is at this day a village in Scotland where it is not uncommon, I am told, for a workman to carry nails instead of money to the baker's shop or the ale-house.

In all countries, however, men seem at last to have been determined by irresistible reasons to give the preference, for this employment, to metals above every other commodity. Metals can not only be kept with as little loss as any other commodity, scarce anything being less perishable than they are, but they can likewise, without any loss, be divided into any number of parts, as by fusion those parts can easily be re-united again: a quality which no other equally durable commodities possess, and which more than any other quality renders them fit to be the instruments of commerce and circulation. The man who wanted to buy salt, for example, and had nothing but cattle to give in exchange for it, must have been obliged to buy salt to the value of a whole ox, or a whole sheep at a time. He could seldom buy less than this, because what he was to give for it could seldom be divided without loss; and if he had a mind to buy more, he must, for the same reasons, have been obliged to buy double or triple the quantity, the value, to wit, of two or three oxen, or of two or three sheep. If, on the contrary, instead of sheep or oxen, he had metals to give in exchange for it, he could easily proportion the quantity of the metal to the precise quantity of the commodity which he had immediate occasion for.

Different metals have been made use of by different nations for this purpose. Iron was the common instrument of commerce among the ancient Spartans; copper among the ancient Romans; and gold and silver among all rich and commercial nations. Those metals seem originally to have been made use of for this purpose in rude bars, with-

out any stamp or coinage. The use of metals in this rude state was attended with two very considerable inconveniencies: first, with the trouble of weighing; and, secondly, with that of assaying them. In the precious metals, where a small difference in the quantity makes a great difference in the value, even the business of weighing, with proper exactness, requires at least very accurate weights and scales. The weighing of gold in particular is an operation of some nicety. In the coarser metals, indeed, where a small error would be of little consequence, less accuracy would no doubt, be necessary. Yet we should find it excessively troublesome, if every time a poor man had occasion either to buy or sell a farthing's worth of goods, he was obliged to weigh the farthing. The operation of assaying is still more difficult, still more tedious, and, unless a part of the metal is fairly melted in the crucible, with proper dissolvents, any conclusion that can be drawn from it is extremely uncertain. Before the institution of coined money, unless they went through this tedious and difficult operation, people must have always been liable to the grossest frauds and impositions, and instead of a pound weight of pure silver, or pure copper, might receive in exchange for their goods an adulterated composition of the coarsest and cheapest materials, which had, however, in their outward appearance been made to resemble those metals. To prevent such abuses, to facilitate exchanges, and thereby to encourage all sorts of industry and commerce, it has been found necessary, in all countries that have made any considerable advances towards improvement, to affix a public stamp upon certain quantities of such particular metals as were in those countries commonly made use of to purchase goods. Hence the origin of coined money, and of those public offices called mints; institutions exactly of the same nature with those of the aulnagers and stampmasters of woollen and linen cloth. All of them are equally meant to ascertain, by means of a public stamp, the quantity and uniform goodness of those different commodities when brought to market.

The first public stamps of this kind that were affixed to the current metals seem, in many cases, to have been intended to ascertain, what it was both most difficult and most important to ascertain, the goodness or fineness of the metal, and to have resembled the sterling mark which is at present affixed to plate and bars of silver, or the Spanish mark which is sometimes affixed to ingots of gold, and which being struck only upon one side of the piece, and not covering the whole surface, ascertains the fineness but not the weight of the metal. Abraham weighs to Ephron the four hundred shekels of silver which he had agreed to pay for the field of Machpelah. They are said however to be the current money of the merchant, and yet are received by weight and not by tale, in the same manner as ingots of gold and bars of silver are at present. The revenues of the ancient Saxon kings of England are said to have been paid, not in money but in kind—that is, in victuals and provisions of all sorts. William the Conqueror introduced the custom of paying them in money. This money was, for a long time, received at the exchequer by weight and not by tale.

The inconveniency and difficulty of weighing those metals with exactness gave occasion to the institution of coins, of which the stamp, covering entirely both sides of the piece and sometimes the edges too, was supposed to ascertain not only the fineness, but the weight of the metal. Such coins therefore were received by tale as at present, without the trouble of weighing.

It is in this manner that money has become, in all civilised nations, the universal instrument of commerce, by the intervention of which goods of all kinds are bought and sold, or exchanged for one another.

What are the rules which men naturally observe in exchanging them, either for money or for one another, I shall now examine. These rules determine what is called the relative or exchangeable value of goods.

CHAPTER III.

VALUE.

SIR WILLIAM PETTY.

If a man bring to London an ounce of silver out of the earth in Peru, in the same time that he can produce a bushel of corn, the one is the natural price of the other; now, if by reason of new and more easy mines, a man can get two ounces of silver as easily as formerly he did one, then corn will be as cheap at ten shillings the bushel as it was before at five shillings, *cæteris paribus*. Let a hundred men work ten years upon corn, and the same number of men the same time upon silver; I say that the neat proceed of the silver is the price of the whole neat proceed of the corn; and like parts of the one the price of like parts of the other. Corn will be twice as dear when there are two hundred husbandmen to do the same work which a hundred could perform.

DE QUINCEY.

He who has fully mastered the doctrine of Value is already a good political economist. Let me entreat the reader not to be impatient under the disproportionate length (as he may fancy it) of the opening discussions on Value. Even for its own sake, the subject is a matter of curious speculation; but in relation to Political Economy it is all in all; for most of the errors (and, what is much worse than errors, most of the perplexities) prevailing in this science take their rise from this

source. Mr. Ricardo is the first writer who has thrown light on the subject; and even he, in the last edition of his book, still found it a "difficult" one. What a Ricardo has found difficult cannot be adequately discussed in few words; but, if the reader will once thoroughly master this part of the science, all the rest will cost him hardly any effort at all.

The question from which all Political Economy will be found to move—the question to which all its difficulties will be found reducible—is this: *What is the ground of exchangeable value?* My hat, for example, bears the same value as your umbrella; double the value of my shoes; four times the value of my gloves; one-twentieth of the value of this watch. Of these several relations of value what is the sufficient cause? If they were capricious, no such science as that of Political Economy could exist; not being capricious, they must have an assignable cause: this cause—what is it? It is this; and listen with your whole understanding: *The ground of the value of all things lies in the quantity* (but mark well that word "quantity") *of labour which produces them.* Here is that great principle which is the corner-stone of all tenable Political Economy; which granted or denied, all Political Economy stands or falls. The principle is no older than the first edition of Mr. Ricardo's book.

Mr. Ricardo's doctrine is that A and B are to each other in value as the *quantity* of labour is which produces A to the quantity which produces B; or, to express it in the very shortest formula by substituting the term *base* as synonymous with the term *producing labour*, *All things are to each other in value as their bases are in quantity.* This is the Ricardian law: you allege that it was already the law of Adam Smith; and in some sense you are right; for such a law is certainly to be found in the *Wealth of Nations.* But, if it is *ex*plicitly affirmed in that work, it is also *im*plicitly denied; formally asserted, it is virtually withdrawn. For Adam Smith everywhere uses, as an equivalent formula, this—that A and B are to each other

in value as the *value* of the labour which produces A to the *value* of the labour which produces B. You fancy that between the expressions "*quantity* of producing labour" and "*value* of producing labour" there is none but a verbal difference. It follows therefore that the same effect ought to take place whether the value of the producing labour be altered or its quantity. For instance, the production of a hat such as mine has hitherto cost (we will suppose) four days' labour at 3s. a day: now, without any change whatsoever in the *quantity* of labour required for its production, let this labour suddenly increase in value by 25 per cent.—in this case four days' labour will produce a hat as heretofore; but, the value of the producing labour being now raised from 3s. a day to 3s. 9d., the value of the total labour necessary for the production of a hat will now be raised from 12s. to 15s. Next, let us suppose a case in which the labour of producing hats shall increase, not in value (as in the preceding case), but in quantity. Labour is still at its old value of 3s. a day; but, from increased difficulty in any part of the process, five days' labour are now spent on the production of a hat instead of four. The labourer on hats receives 15s. in the second case as well as in the first; but in the first case for four days' labour, in the second for five; consequently, in the second case, wages (or the value of labour) have not risen at all, whereas in the first case wages have risen by 25 per cent.

According to Adam Smith, and all those who overlook the momentous difference between the quantity and the value of labour, fancying that these are mere varieties of expression for the same thing, the price of hats ought in the two cases stated to be equally raised—viz., 3s. in each case. If then it be utterly untrue that the price of hats would be equally raised in the two cases, it will follow that an alteration in the value of the producing labour and an alteration in its quantity must terminate in a very different result; and consequently the one alteration cannot be the same as the other.

Now, the price of hats would *not* be equally raised in the two cases: in the second case the price of a hat will rise by 3s., in the first case it will not rise at all. And, that I may demonstrate this, let us assume that, when the labour spent on a hat cost 12s., the rate of profits was 50 per cent.—it is of no consequence what rate be fixed on,—assuming this rate, therefore, the price of a hat would at that time be 18s. Now, when the *quantity* of labour rose from four to five days, this fifth day would add three shillings to the amount of wages; and the price of a hat would rise in consequence from 18s. to a guinea. On the other hand, when the *value* of labour rose from 12s. to 15s., the price of a hat would not rise by one farthing, but would still continue at 18s. The 3s. will be paid out of profits. It is Mr. Ricardo's doctrine that no variation in either profits or wages can ever affect price; if wages rise or fall, the only consequence is that profits must fall or rise by the same sum; so again, if profits rise or fall, wages must fall or rise accordingly.

My opinion is that there are only two great cases in which wages rise or seem to rise:

1. When money sinks in value; for then, of course, the labourer must have more wages nominally, in order to have the same virtually. But this is obviously nothing more than an apparent rise.

2. When those commodities rise upon which wages are spent. A rise in port wine, in jewels, or in horses, will not affect wages, because these commodities are not consumed by the labourer; but a rise in manufactured goods of certain kinds, upon which perhaps two-fifths of his wages are spent, will tend to raise wages: and a rise in certain kinds of food, upon which perhaps the other three-fifths are spent, will raise them still more. Now, the first case being only an apparent rise, this is the only case in which wages can be said really to rise. No cause can really and permanently raise wages but a rise in the price of those articles on which wages are spent. In the instance above stated, where the hatter's wages rose from 3s. to 3s. 9d. a day, some commodity must previously have risen on which

the hatter spent his wages. Let this be corn, and let corn constitute one-half of the hatter's expenditure; on which supposition, as his wages rose by 25 per cent., it follows that corn must have risen by 50 per cent. Wages in general, therefore, will rise by 25 per cent. Now, when the wages of the hatter rose in that proportion, you contended that this rise must be charged upon the price of hats; and, the price of a hat having been previously 18s, you insisted that it must now be 21s.; in which case a rise in wages of 25 per cent. would have raised the price of hats about 16½ per cent. And, if such a rise in wages could raise the price of hats by 16½ per cent., it must raise all other commodities whatsoever by 16½ per cent. Now, tell me, when all commodities without exception are raised by 16½ per cent., in what proportion will the power of money be diminished under every possible application of it? Manifestly by 16½ per cent. If so, you must now acknowledge that it is a matter of perfect indifference to the hatter whether the price of hats rise or not, since he cannot under any circumstances escape the payment of the 3s. If the price should *not* rise (as assuredly it will not), he pays the 3s. directly; if the price were to rise by 3s., this implies of necessity that prices rise universally. Now, if prices rise universally, the hatter undoubtedly escapes the direct payment of the 3s., but he pays it indirectly; inasmuch as £116 10s. is now become necessary to give him the same command of labour and commodities which was previously given by £100.

The reason why all variations in the *value* of labour are incapable of transferring themselves to the value of its product is this,—that these variations extend to all kinds of labour, and therefore to all commodities alike: now that which raises or depresses all things equally leaves their relations to each other undisturbed. In order to disturb the relations of value between A, B, and C, I must raise one at the same time that I do *not* raise another: depress one, and *not* depress another; raise or depress them unequally. This is necessarily done by any variations in the *quantity*

of labour. For example, when more or less labour became requisite for the production of hats, that variation could not fail to affect the value of hats, for the variation was confined exclusively to hats; and no more labour was on that account requisite for the production of gloves, or wine, or carriages. Consequently, these and all other articles remaining unaffected, whilst hats required 25 per cent. more labour, the previous relation between hats and all other commodities was disturbed—*i.e.*, a *real* effect was produced on the value of hats. Whereas, when hats without requiring a greater quantity of labour were simply produced by labour at a higher value, this change could not possibly disturb the relation between hats and any other commodities, because they were all equally affected by it. If by some application of any mechanic or chemical discovery to the process of making candles the labour of that process were diminished by one-third, the value of candles would fall; for the relation of candles to all other articles, in which no such abridgment of labour had been effected, would be immediately altered: two days' labour would now produce the same quantity of candles as three days' labour before the discovery. But if, on the other hand, the wages of three days had simply fallen in value to the wages of two days—that is, if the labourer received only 6s. for three days instead of 9s.—this could not affect the value of candles; for the fall of wages, extending to all other things whatsoever, would leave the relations between them all undisturbed; everything else which had required 9s. worth of labour would now require 6s. worth; and a pound of candles would exchange for the same quantity of everything as before. Hence it appears that no cause can possibly affect the value of anything—*i.e.*, its exchangeable relation to other things—but an increase or diminution in the quantity of labour required for its production: and the prices of all things whatsoever represent the quantity of labour by which they are severally produced; and the value of A is to the value of B universally as the quantity of labour which produces A to the quantity of labour which

produces B. One single writer before Mr. Ricardo has insisted on the *quantity* of labour as the true ground of value, and, what is very singular, at a period when Political Economy was in the rudest state—viz., in the early part of Charles II.'s reign. This writer was Sir William Petty (p. 57), a man who would have greatly advanced the science if he had been properly seconded by his age. In a remarkable passage, too long for quotation, he has expressed the law of value with a Ricardian accuracy: but it is scarcely possible that even he was aware of his own accuracy; for, though he has asserted that the reason why any two articles exchange for each other (as so much corn of Europe, suppose, for so much silver of Peru) is because the same quantity of labour has been employed on their production, and though he has certainly not vitiated the purity of this principle by the usual heteronomy (if you will allow me a learned word)—*i.e.*, by the introduction of the other and opposite law derived from the *value* of this labour—yet it is probable that in thus abstaining he was guided by mere accident, and not by any conscious purpose of contradistinguishing the one law from the other; because, had *that* been his purpose, he would hardly have contented himself with forbearing to affirm, but would formally have denied, the false law. For it can never be sufficiently impressed upon the student's mind that it brings him not one step nearer to the truth to say that the value of A is determined by the quantity of labour which produces it, unless by that proposition he means that it is *not* determined by the *value* of the labour which produces it.

Let us suppose the mines from which we obtain our silver to be in England. I suppose it to be in England simply to avoid intermixing any question about foreign trade. Now, when the hat sold for 18s., on Mr. Ricardo's principle why did it sell for that sum? Because it is the product ot the same quantity of labour as that which produced the hat. Calling 20s., therefore, 4 ounces of silver, the hat was worth 9-10ths of 4 ounces. Now, when wages advance from 12s. to 14s., profits (you allege) will

not pay this advance, but price. On this supposition the price of the hat will now be—what? 20s.; leaving, as before, 6s. for profit. 6s. upon 14s. are not the same *rate* of profit as 6s. upon 12s.; but no matter, it does not affect the argument. The hat is now worth 4 entire ounces of silver, having previously been worth 4 ounces *minus* a tenth of 4 ounces. But the product of 4 days' labour in a silver mine must also advance in value for the same cause. Four ounces of silver, which is that product, will now have the same power or value as 22.22s. had before. Consequently the 4 ounces of silver, which had previously commanded in exchange a hat and the 9th of a hat, will now command a hat and 2-9ths, fractions neglected. Hence, therefore, a hat will, upon any anti-Ricardian theory, manifestly buy 4 ounces of silver; and yet, at the same time, it will not buy 4 ounces by 1-5th part of 4 ounces. Silver and the denominations of its qualities being familiar make it more convenient to use that metal; but substitute lead, iron, coal, or anything whatsoever—the argument is the same, being in fact a universal demonstration that variation in wages cannot produce corresponding variations in price.

Finally, there arises a modification, first indicated by Ricardo, of value, from the different proportions in which capital, fixed or circulating, predominates in the production of the articles. In this case, it can very often no longer be said that the prices of the resulting articles, according to the general rule of Ricardo, vary as the quantities of the producing labour: a disturbance of that law occurs.

The difference between what is called fixed capital and what is called circulating capital has often been represented as shifting and shadowy. However, without entering upon that dispute further at this point, it will be sufficient to say that they *may* be distinguished essentially. Circulating capital, in its normal idea, means any agent whatever used productively which perishes in the very act of being used. Thus, wages are conveniently said to be for a month, a week, or a day; but, in fact, a commensurate "moment" of wages perishes upon every instant of time. So of candle-

light or gas, so of the porter or drink of any kind allowed by the master of a manufacturing establishment—none of it holds over for a second act of consumption. That part which may accidentally survive is a part wholly distinct, not concerned at all in the first act. But in fixed capital this is otherwise. The workman's tools hold over from one act of production to a thousandth act. The same identical chisel, saw, grindstone, and not successive parts of them, have operated on many hundreds of cases; and, by how much larger has been the range of these iterations, by so much the more intensely is the tool, engine, or machinery entitled to the denomination of fixed. The leading case under circulating capital—what we chiefly think of—is wages; the leading case under fixed capital is machinery.

Now, in practice, although one kind of capital often preponderates, rarely is it found altogether to exclude the other. Where wages, for instance, form the main element of cost, there will yet be implements required; and, inversely, the most extensive machines require human vigilance, direction, and sometimes very considerable co-operation. But, though this is always the practical case, for the sake of trying the question it is better to suppose an extreme case, in which alternately the products arise exclusively from a machine, demanding no aid whatever from circulating capital, and again exclusively from human labour, demanding no aid whatever from capital fixed in stationary machines or instruments. On such an assumption, Ricardo undertakes to show that the commodities produced in the first case could sustain a far greater fall in price under the same change in the circumstances, and with the same injury (no more and no less) to the manufacturing capitalists, than those produced in the second.

He bids us suppose a case of circulating capital where, for the production of certain articles, two thousand pounds annually are paid in wages. We are to suppose an opposite case, in which two thousand pounds have been sunk in a very durable machine for producing a particular set of articles. Now, the annual profits will be the same for both

parties: say, at ten per cent., two hundred pounds. Consequently we may say of the total products turned out from either establishment—that they will sell for two thousand two hundred pounds in the first case, for two hundred pounds in the second. Some trifle should be added for current repairs on the machine, and also another trifle as a sinking-fund for replacing the machine finally—yet, as this machine is of variable duration, and in one case calculated to last for a century, both provisions are uncertain, and frequently too inconsiderable to affect the results, so that they may be safely neglected.

Now then, such being the circumstances of the two cases, suppose a rise in wages of two per cent. to affect the prices of articles issuing from the first establishment. For a time this is peculiar to that establishment; it does not reach the second at first, because *that* by the case pays no wages. But at last it reaches the second set of products also, through the rebound upon profits. The two per cent. extra on wages will be forty pounds in the whole. Now, the loss upon wages must be borne by profits. But the forty pounds levied upon two hundred pounds will reduce the prices of the articles by that amount—*i.e.*, twenty per cent.; whereas the forty pounds levied upon two thousand two hundred pounds is simply transferred to the labourers, and the price continues as it was.

The case here imagined by Ricardo, and which is subsequently varied through lower stages of durability, greatly disturbing the violence of the results as to price, is exceedingly important by its tendency. And he goes on to show, what will naturally have suggested itself to the student, that between different sorts of fixed capital there is the same difference of tendency as between fixed and circulating. And why? Because the durability, which forms the ground of the generic distinction between fixed and circulating, varies also, and therefore becomes a ground for a special distinction, between any different orders of the fixed. When a man sows corn, which is intensely circulating capital, he seems absolutely and violently to throw it

away. But this eventually comes back to him in a new shape. But on every year he renews this violent sacrifice of capital. Other modes of capital, in an opposite extreme, as a threshing-machine, last for his life or even longer. Now, the intermediate modes, such as horses, next cows, carts, rakes, as they outlast uses continually less durable, come nearer and nearer to the principle of the circulating capital; and consequently the difference of result upon price, under any changes occurring in productive agencies, tends more and more to become evanescent. This is the amount of Ricardo's restriction applied to his own general principle of value. Without a knowledge of the *ground* on which value depends, or without some approximation to it, Political Economy could not exist at all, except as a heap of baseless opinions. *That* without which a science cannot exist is commensurate in use with the science itself; being the fundamental law, it will testify its own importance in the changes which it will impress on all the derivative laws. For the main use of Mr. Ricardo's principle I refer you therefore to all Political Economy. Meantime I will notice here the immediate services which it has rendered by liberating the student from these perplexities which previously embarrassed him on his first introduction to the science. I mention two cases by way of specimen.

1. When it was asked by the student what determined the value of all commodities, it was answered that this value was chiefly determined by wages. When again it was asked what determined wages, it was recollected that wages must generally be adjusted to the value of the commodities upon which they were spent; and the answer was in effect that wages were determined by the value of commodities. And thus the mind was entangled in this inextricable circle —that the price of commodities was determined by wages, and wages determined by the price of commodities. From this gross Διαλληλος (as the logicians call it) or see-saw we are now liberated; for the first step, as we are now aware, is false: the value of commodities is *not* determined by wages; since wages express the value of labour, and it has

been demonstrated that not the *value* but the *quantity* of labour determines the value of its products.

2. A second case in which Mr. Ricardo's law has introduced a simplicity into the science which had in vain been sought for before, is this:—All former economists, in laying down the component parts of price, had fancied it impossible to get rid of what is termed *the raw material* as one of its elements. This impossibility was generally taken for granted. Now, this refractory element is at once, and in the simplest way possible, exterminated by Mr. Ricardo's reformed law of value. Upon the old system, if I had resolved the value of my hat into wages and profits, I should immediately have been admonished that I had forgotten one of the elements: "wages, profits, and raw material, you mean," it would have said. Raw material! Well, but on what separate principle can this raw material be valued? or on what other principle than that on which the hat itself was valued? Like any other product of labour, its value is determined by the quantity of labour employed in obtaining it; and the amount of this product is divided between wages and profits as in any case of a manufactured commodity. The raw material of the hat suppose to be beaver: if, then, in order to take the quantity of beavers which are necessary to furnish materials for a thousand hats, four men have been employed for twenty-five days, then it appears that the raw material of a thousand hats has cost a hundred days' labour,—which will be of the same value in exchange as the product of a hundred days' labour (previously equated and discounted as to its *quality*) in any other direction; as, for example, if a hundred days' labour would produce two thousand pairs of stockings of a certain quality, then it follows that the raw material of my hat is worth two pairs of such stockings.

Here, then, in a hasty shape, I have offered two specimens of the uses which arise from a better law of value,—again reminding you, however, that the main use must lie in the effect which it will impress on all the other laws of Political Economy.

J. S. MILL

The idea of a Measure of Value must not be confounded with the idea of the regulator, or determining principle, of value. When it is said by Ricardo and others, that the value of a thing is regulated by quantity of labour, they do not mean the quantity of labour for which the thing will exchange, but the quantity required for producing it. This, they mean to affirm, determines its value; causes it to be of the value it is, and of no other. But when Adam Smith and Malthus say that labour is a measure of value, they do not mean the labour by which the thing was or can be made, but the quantity of labour which it will exchange for, or purchase; in other words, the value of the thing, estimated in labour. And they do not mean that this *regulates* the general exchange value of the thing, or has any effect in determining what that value shall be, but only ascertains what it is, and whether and how much it varies from time to time and from place to place. To confound these two ideas, would be much the same thing as to overlook the distinction between the thermometer and the fire.

Adam Smith, in a passage often quoted, has touched upon the most obvious ambiguity of the word value; which, in one of its senses, signifies usefulness, in another, power of purchasing; in his own language, value in use, and value in exchange. But (as Mr. De Quincey has remarked) in illustrating this double meaning, Adam Smith has himself fallen into another ambiguity. Things (he says) which have the greatest value in use have often little or no value in exchange; which is true, since that which can be obtained without labour or sacrifice will command no price, however useful or needful it may be. But he proceeds to add, that things which have the greatest value in exchange, as a diamond for example, may have little or no value in use. This is employing the word use, not in the sense in which political economy is concerned with it, but in that other sense in which use is opposed to pleasure. Political economy has

nothing to do with the comparative estimation of different uses in the judgment of a philosopher or of a moralist. The use of a thing, in political economy, means its capacity to satisfy a desire, or serve a purpose. Diamonds have this capacity in a high degree, and unless they had it, would not bear any price. Value in use, or as Mr. De Quincey calls it, *teleologic* value, is the extreme limit of value in exchange. The exchange value of a thing may fall short, to any amount, of its value in use; but that it can ever exceed the value in use, implies a contradiction; it supposes that persons will give, to possess a thing, more than the utmost value which they themselves put upon it, as a means of gratifying their inclinations.

The word Value, when used without adjunct, always means, in political economy, value in exchange; or as it has been called by Adam Smith and his successors, exchangeable value, a phrase which no amount of authority that can be quoted for it can make other than bad English. Mr. De Quincey substitutes the term Exchange Value, which is unexceptionable.

Exchange value requires to be distinguished from Price. The words Value and Price were used as synonymous by the early political economists, and are not always discriminated even by Ricardo. But the most accurate modern writers, to avoid the wasteful expenditure of two good scientific terms on a single idea, have employed Price to express the value of a thing in relation to money; the quantity of money for which it will exchange. By the price of a thing, therefore, we shall henceforth understand its value in money; by the value, or exchange value of a thing, its general power of purchasing; the command which its possession gives over purchasable commodities in general.

The distinction between Value and Price, as we have now defined them, is so obvious, as scarcely to seem in need of any illustration. But in Political Economy the greatest errors arise from overlooking the most obvious truths. Simple as this distinction is, it has consequences

with which a reader unacquainted with the subject would do well to begin early by making himself thoroughly familiar. The following is one of the principal. There is such a thing as a general rise of prices. All commodities may rise in their money price. But there cannot be a general rise of values. It is a contradiction in terms. A can only rise in value by exchanging for a greater quantity of B and C; in which case these must exchange for a smaller quantity of A. All things cannot rise relatively to one another. If one-half of the commodities in the market rise in exchange value, the very terms imply a fall of the other half; and reciprocally, the fall implies a rise. Things which are exchanged for one another can no more all fall, or all rise, than a dozen runners can each outrun all the rest, or a hundred trees all overtop one another. Simple as this truth is, we shall presently see that it is lost sight of in some of the most accredited doctrines both of theorists and of what are called practical men. And as a first specimen, we may instance the great importance attached in the imagination of most people to a rise or fall of general prices. Because when the price of any one commodity rises, the circumstance usually indicates a rise of its value, people have an indistinct feeling when all prices rise, as if all things simultaneously had risen in value, and all the possessors had become enriched. That the money prices of all things should rise or fall, provided they all rise or fall equally, is, in itself, and apart from existing contracts, of no consequence. It affects nobody's wages, profits, or rent. Every one gets more money in the one case and less in the other; but of all that is to be bought with money they get neither more nor less than before. It makes no other difference than that of using more or fewer counters to reckon by. The only thing which in this case is really altered in value, is money; and the only persons who either gain or lose are the holders of money, or those who have to receive or to pay fixed sums of it. There is a difference to annuitants and to creditors the one way, and to those who are burthened with annuities, or with debts, the contrary way. There is a disturbance, in short, of fixed money con-

tracts; and this is an evil, whether it takes place in the debtor's favour or in the creditor's. But as to future transactions there is no difference to any one. Let it therefore be remembered (and occasions will often rise of calling it to mind) that a general rise or a general fall of values is a contradiction; and that a general rise or a general fall of prices is merely tantamount to an alteration in the value of money, and is a matter of complete indifference, save in so far as it affects existing contracts for receiving and paying fixed pecuniary amounts, and (it must be added) as it affects the interests of the producers of money.

Values and prices are determined by competition alone. In so far only as they are thus determined, can they be reduced to any assignable law. The buyers must be supposed as studious to buy cheap, as the sellers to sell dear. The values and prices, therefore, to which our conclusions apply, are mercantile values and prices; such prices as are quoted in price-currents; prices in the wholesale markets, in which buying as well as selling is a matter of business; in which the buyers take pains to know, and generally do know, the lowest price at which an article of a given quality can be obtained; and in which, therefore, the axiom is true, that there cannot be for the same article, of the same quality, two prices in the same market. Shoes of equally good quality are sold in different shops at prices which differ considerably; and the price of leather may fall without causing the richer class of buyers to pay less for shoes. Nevertheless, shoes do sometimes fall in price; and when they do, the cause is always some such general circumstance as the cheapening of leather: and when leather is cheapened, even if no difference shows itself in shops frequented by rich people, the artisan and the labourer generally get their shoes cheaper, and there is a visible diminution in the contract prices at which shoes are delivered for the supply of a workhouse or of a regiment. In all reasoning about prices, the proviso must be understood, "supposing all parties to take care of their own interest."

That a thing may have any value in exchange, two conditions are necessary. It must be of some use; that is (as already explained), it must conduce to some purpose, satisfy some desire. No one will pay a price, or part with anything which serves some of his purposes, to obtain a thing which serves none of them. But, secondly, the thing must not only have some utility, there must also be some difficulty in its attainment. "Any article whatever," says Mr. De Quincey, "to obtain that artificial sort of value which is meant by exchange value, must begin by offering itself as a means to some desirable purpose; and secondly, even though possessing incontestably this preliminary advantage, it will never ascend to an exchange value in cases where it can be obtained gratuitously and without effort; of which last terms both are necessary as limitations."

Adam Smith and Ricardo have called that value of a thing which is proportional to its cost of production, its Natural Value (or its Natural Price). They meant by this, the point about which the value oscillates, and to which it always tends to return; the centre value, towards which, as Adam Smith expresses it, the market value of a thing is constantly gravitating; and any deviation from which is but a temporary irregularity, which, the moment it exists, sets forces in motion tending to correct it. On an average of years sufficient to enable the oscillations on one side of the central line to be compensated by those on the other, the market value agrees with the natural value; but it very seldom coincides exactly with it at any particular time. The sea everywhere tends to a level; but it never is at an exact level; its surface is always ruffled by waves, and often agitated by storms. It is enough that no point, at least in the open sea, is permanently higher than another. Each place is alternately elevated and depressed; but the ocean preserves its level.

The latent influence by which the values of things are made to conform in the long run to the cost of production, is the variation that would otherwise take place in the supply of the commodity. The supply would be increased

if the thing continued to sell above the ratio of its cost of production, and would be diminished if it fell below that ratio. But we must not therefore suppose it to be necessary that the supply should *actually* be either diminished or increased. Suppose that the cost of production of a thing is cheapened by some mechanical invention, or increased by a tax. The value of a thing would in a little time, if not immediately, fall in the one case, and rise in the other; and it would do so, because if it did not, the supply would in the one case be increased, until the price fell, in the other diminished, until it rose. For this reason, and from the erroneous notion that value depends on the *proportion* between the demand and the supply, many persons suppose that this proportion must be altered whenever there is any change in the value of the commodity; that the value cannot fall through a diminution of the cost of production, unless the supply is permanently increased; nor rise, unless the supply is permanently diminished. But this is not the fact: there is no need that there should be any actual alteration of supply; and when there is, the alteration, if permanent, is not the cause but the consequence of the alteration in value. If, indeed, the supply *could* not be increased, no diminution in the cost of production would lower the value: but there is by no means any necessity that it *should*. The mere possibility often suffices; the dealers are aware of what would happen, and their mutual competition makes them anticipate the result by lowering the price. Whether there will be a greater permanent supply of the commodity, after its production has been cheapened, depends on quite another question—namely, on whether a greater quantity is wanted at the reduced value. Most commonly a greater quantity is wanted, but not necessarily.

Again, reverse the case, and suppose the cost of production increased, as for example by laying a tax on the commodity. The value would rise; and that, probably immediately. Would the supply be diminished? Only if the increase of value diminished the demand. Whether

this effect followed, would soon appear, and if it did, the value would recede somewhat, from excess of supply, until the production was reduced, and would then rise again. There are many articles for which it requires a very considerable rise of price, materially to reduce the demand; in particular, articles of necessity, such as the habitual food of the people; in England, wheaten bread: of which there is probably almost as much consumed, at the present cost price, as there would be with the present population at a price considerably lower. Yet it is especially in such things that dearness or high price is popularly confounded with scarcity. Food may be dear from scarcity, as after a bad harvest; but the dearness (for example) which is the effect of taxation, or of corn laws, has nothing whatever to do with insufficient supply: such causes do not much diminish the quantity of food in a country: it is other things rather than food that are diminished in quantity by them, since, those who pay more for food not having so much to expend otherwise, the production of other things contracts itself to the limits of a smaller demand.

It is, therefore, strictly correct to say, that the value of things which can be increased in quantity at pleasure, does not depend (except accidentally, and during the time necessary for production to adjust itself) upon demand and supply; on the contrary, demand and supply depend upon it. There is a demand for a certain quantity of the commodity at its natural or cost value, and to that the supply in the long run endeavours to conform. When at any time it fails of so conforming, it is either from miscalculation or from a change in some of the elements of the problem: either in the natural value—that is, in the cost of production—or in the demand, from an alteration in public taste or in the number or wealth of the consumers. These causes of disturbance are very liable to occur, and when any one of them does occur, the market value of the article ceases to agree with the natural value. The real law of demand and supply, the equation between them, holds good in all cases: if a value different from the

natural value be necessary to make the demand equal to the supply, the market value will deviate from the natural value; but only for a time; for the permanent tendency of supply is to conform itself to the demand which is found by experience to exist for the commodity when selling at its natural value. If the supply is either more or less than this, it is so accidentally, and affords either more or less than the ordinary rate of profit; which, under free and active competition, cannot long continue to be the case.

It will have been observed that Ricardo expresses himself as if the *quantity* of labour which it costs to produce a commodity and bring it to market, were the only thing on which its value depended. But since the cost of production to the capitalist is not labour but wages, and since wages may be either greater or less, the quantity of labour being the same; it would seem that the value of the product cannot be determined solely by the quantity of labour, but by the quantity together with the remuneration; and that values must partly depend on wages.[1]

In order to decide this point, it must be considered, that value is a relative term; that the value of a commodity is not a name for an inherent and substantive quality of the thing itself, but means the quantity of other things which can be obtained in exchange for it. The value of one thing, must always be understood relatively to some other thing, or to things in general. Now the relation of one thing to another cannot be altered by any cause which affects them both alike. A rise or fall of general wages is a fact which affects all commodities in the same manner, and therefore affords no reason why they should exchange for each other in one rather than in another proportion. To suppose that high wages make high values, is to suppose

[1] Ricardo seems to expressly repudiate this interpretation of his theory in this passage:—"Mr. Malthus," he says, "appears to think that it is a part of my doctrine that the cost and value of a thing should be the same—it is, if he means by cost, cost of production *including* profits. This is what he does not mean, and therefore he has not clearly understood me."—W. B. R.

that there can be such a thing as general high values. But this is a contradiction in terms: the high value of some things is synonymous with the low value of others. The mistake arises from not attending to values, but only to prices. Though there is no such thing as a general rise of values, there is such a thing as a general rise of prices. As soon as we form distinctly the idea of values, we see that high or low wages can have nothing to do with them: but that high wages make high prices, is a popular and widespread opinion. If it be true, there can be no such thing as a real rise of wages; for if wages could not rise without a proportional rise of the price of everything, they could not, for any substantial purpose, rise at all. This surely is a sufficient *reductio ad absurdum*, and shows the amazing folly of the propositions which may and do become, and long remain, accredited doctrines of popular political economy. It must be remembered, too, that general high prices, even supposing them to exist, can be of no use to a producer or dealer, considered as such; for if they increase his money returns, they increase in the same degree all his expenses. There is no mode in which capitalists can compensate themselves for a high cost of labour, through any action on values or prices. It cannot be prevented from taking its effect in low profits. If the labourers really get more—that is, get the produce of more labour—a smaller percentage must remain for profit. From this Law of Distribution, resting as it does on a law of arithmetic, there is no escape. The mechanism of Exchange and Price may hide it from us, but is quite powerless to alter it.

Although, however, *general* wages, whether high or low, do not affect values, yet if wages are higher in one employment than another, or if they rise or fall permanently in one employment without doing so in others, these inequalities do really operate upon values. When the wages of an employment permanently exceed the average rate, the value of the thing produced will, in the same degree, exceed the standard determined by mere quantity

of labour. Things, for example, which are made by skilled labour, exchange for the produce of a much greater quantity of unskilled labour; for no reason but because the labour is more highly paid. If, through the extension of education, the labourers competent to skilled employments were so increased in number as to diminish the difference between their wages and those of common labour, all things produced by labour of the superior kind would fall in value, compared with things produced by common labour, and these might be said therefore to rise in value. The difficulty of passing from one class of employments to a class greatly superior, has hitherto caused the wages of all those classes of labourers who are separated from one another by any very marked barrier, to depend more than might be supposed upon the increase of the population of each class, considered separately; and the inequalities in the remuneration of labour are much greater than could exist if the competition of the labouring people generally could be brought practically to bear on each particular employment. It follows from this, that wages in different employments do not rise or fall simultaneously, but are, for short and sometimes even for long periods, nearly independent of one another. All such disparities evidently alter the *relative* cost of production of different commodities, and will therefore be completely represented in their natural or average value.

It thus appears that the maxim laid down by some of the political economists, that wages do not enter into value, is expressed with greater latitude than the truth warrants, or than accords with their own meaning. Wages do enter into value. The relative *wages* of the labour necessary for producing different commodities, affect their value just as much as the relative *quantities* of labour. It is true, the absolute wages paid have no effect upon values; but neither has the absolute quantity of labour. If that were to vary simultaneously and equally in all commodities, values would not be affected. If, for instance, the general efficiency of all labour were increased, so that all things without excep-

tion could be produced in the same quantity as before with a smaller amount of labour, no trace of this general diminution of cost of production would show itself in the values of commodities. Any change which might take place in them would only represent the unequal degrees in which the improvement affected different things; and would consist in cheapening those in which the saving of labour had been the greatest, while those in which there had been some, but a less saving of labour, would actually rise in value. In strictness, therefore, wages of labour have as much to do with value as quantity of labour: and neither Ricardo nor any one else has denied the fact. In considering, however, the causes of *variations* in value, quantity of labour is the thing of chief importance; for when that varies, it is generally in one or a few commodities at a time, but the variations of wages (except passing fluctuations) are usually general, and have no considerable effect on value.

JAMES MILL.

When a certain quantity of one commodity is exchanged for a certain quantity of another commodity; a certain quantity of cloth, for example, for a certain quantity of corn; there is something which determines the owner of the cloth to accept for it such and such a quantity of corn; and, in like manner, the owner of the corn to accept such and such a quantity of cloth.

This is, evidently, the principle of demand and supply, in the first instance. If a great quantity of corn comes to market to be exchanged for cloth, and only a small quantity of cloth to be exchanged for corn, a great quantity of corn will be given for a small quantity of cloth. If the quantity of cloth, which thus comes to market, is increased, without any increase in the quantity of corn, the quantity of corn which is exchanged for a given quantity of cloth will be proportionally diminished.

This answer, however, does not resolve the whole of the question. The quantity in which commodities exchange

for one another depends upon the proportion of supply to demand. It is evidently therefore necessary to ascertain upon what that proportion depends. To determine the laws according to which supply is furnished to demand, is one of the most important inquiries in Political Economy.

Demand creates, and the loss of demand annihilates, supply. When an increased demand arises for any commodity, an increase of supply, if the supply is capable of increase, follows, as a regular effect. If the demand for any commodity altogether ceases, the commodity is no longer produced.

The connection here, of causes and effects, is easily explained. If corn is brought to market, the cost of bringing it has been so much. If cloth is brought to market, the cost of bringing it has been so much. For the benefit of simplicity, the number of commodities in the market are here supposed to be two: it is of no consequence, with regard to the result, whether they are understood to be few or many.

The cost of bringing the corn to market has been either equal to that of bringing the cloth, or unequal. If it has been equal, there is no motive, to those who bring the cloth or the corn, for altering the quantity of either. They cannot obtain more of the commodity which they receive in exchange, by transferring their labour to its production. If the cost has been unequal, there immediately arises a motive for altering the proportions. Suppose that the cost of bringing the whole of the corn has been greater than that of bringing the whole of the cloth; and that the whole of the one is exchanged against the whole of the other, either at once, or in parts: the persons who brought the cloth have in that case possessed themselves of a quantity of corn at less cost than that at which it was brought to market, by those who produced it; those, on the other hand, who brought the corn have possessed themselves of a quantity of cloth, at a greater cost than that at which it can be made and brought to market.

Here motives arise, to diminish the quantity of corn, and

increase the quantity of cloth; because the men who have been producing corn, and purchasing cloth, can obtain more cloth by transferring their means of production from the one to the other. As soon, again, as no more cloth can be obtained by applying the same amount of means to the production of cloth, than by applying them to corn, and exchanging it for cloth, all motive to alter the quantity of the one as compared with that of the other is at an end. Nothing is to be gained by producing corn rather than cloth, or cloth rather than corn. The cost of production on both sides is equal.

It thus appears that the relative value of commodities, or, in other words, the quantity of one which exchanges for a given quantity of another, depends upon demand and supply, in the first instance; but upon cost of production, ultimately; and hence, in accurate language, upon cost of production, entirely. An increase or diminution of demand or supply may temporarily increase or diminish, beyond the point of productive cost, the quantity of one commodity which exchanges for a given quantity of another; but the law of competition, wherever it is not obstructed, tends invariably to bring it to that point, and to keep it there.

RICARDO.

Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them.

There are some commodities the value of which is determined by their scarcity alone. No labour can increase the quantity of such goods, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality, which can be made only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labour originally necessary to produce them, and

varies with the varying wealth and inclinations of those who are desirous to possess them.

These commodities, however, form a very small part of the mass of commodities daily exchanged in the market. By far the greatest part of those goods which are the objects of desire, are procured by labour; and they may be multiplied, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labour necessary to obtain them.

In speaking then of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.

In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of one shall be given in exchange for another, depends almost exclusively on the comparative quantity of labour expended on each.

"The real price of everything," says Adam Smith, "what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people." "Labour was the first price—the original purchase-money that was paid for all things." Again, "in that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually cost twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for, or be worth two deer. It is natural that what is usually the produce of two days', or two hours' labour,

should be worth double of what is usually the produce of one day's, or one hour's labour."

That this is really the foundation of the exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in political economy; for from no source do so many errors, and so much difference of opinion in that science proceed, as from the vague ideas which are attached to the word value.

If the quantity of labour realised in commodities regulate their exchangeable value, every increase of the quantity of labour must augment the value of that commodity on which it is exercised, as every diminution must lower it.

Adam Smith, who so accurately defined the original source of exchangeable value, and who was bound in constancy to maintain, that all things became more or less valuable in proportion as more or less labour was bestowed on their production, has himself erected another standard measure of value, and speaks of things being more or less valuable, in proportion as they will exchange for more or less of this standard measure. Sometimes he speaks of corn, at other times of labour, as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent expressions, and as if because a man's labour had become doubly efficient, and he could therefore produce twice the quantity of a commodity, he would necessarily receive twice the former quantity in exchange for it.

If the shoes and clothing of the labourer could, by improvements in machinery, be produced by one-fourth of the labour now necessary to their production, they would probably fall 75 per cent.; but so far is it from being true, that the labourer would thereby be enabled permanently to consume four coats, or four pairs of shoes, instead of one, that it is probable his wages would in no long time be adjusted by the effects of competition, and the stimulus to population, to the new value of the necessaries on which

they were expended. If these improvements extended to all the objects of the labourer's consumption, we should find him probably at the end of a very few years, in possession of only a small, if any, addition to his enjoyments, although the exchangeable value of those commodities, compared with any other commodity, in the manufacture of which no such improvements were made, had sustained a very considerable reduction; and though they were the produce of a very considerably diminished quantity of labour.

It cannot then be correct to say, with Adam Smith, "that as labour may sometimes *purchase* a greater, and sometimes a smaller quantity of goods, it is their value which varies, not that of the labour which purchases them;" and therefore, "that labour *alone never varying in its own value*, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared;"—but it is correct to say, as Adam Smith had previously said, "that the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another;" or in other words, that it is the comparative quantity of commodities which labour will produce that determines their present or past relative value, and not the comparative quantities of commodities which are given to the labourer in exchange for his labour.

In speaking, however, of labour, as being the foundation of all value, and the relative quantity of labour as determining the value of commodities, I must not be supposed to be inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour, in one employment, with the same duration of labour in another. The estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision for all practical purposes, and depends much on the comparative skill of the labourer, and intensity of the labour performed. The scale, when once formed,

is liable to little variation. If a day's labour of a working jeweller be more valuable than a day's labour of a common labourer, it has long ago been adjusted, and placed in its proper position in the scale of value.

In comparing, therefore, the value of the same commodity, at different periods of time, the consideration of the comparative skill and intensity of labour, required for that particular commodity, needs scarcely to be attended to, as it operates equally at both periods. One description of labour at one time is compared with the same description of labour at another; if a tenth, a fifth, or a fourth, has been added or taken away, an effect proportioned to the cause will be produced on the relative value of the commodity.

If a piece of cloth be now of the value of two pieces of linen, and if, in ten years hence, the ordinary value of a piece of cloth should be four pieces of linen, we may safely conclude, that either more labour is required to make the cloth, or less to make the linen, or that both causes have operated.

As the inquiry to which I wish to draw the reader's attention relates to the effect of the variations in the relative value of commodities, and not in their absolute value, it will be of little importance to examine into the comparative degree of estimation in which the different kinds of human labour are held. We may fairly conclude, that whatever inequality there might originally have been in them, whatever the ingenuity, skill, or time necessary for the acquirement of one species of manual dexterity more than another, it continues nearly the same from one generation to another; or at least, that the variation is very inconsiderable from year to year, and therefore, can have little effect, for short periods, on the relative value of commodities.

Even in that early state to which Adam Smith refers (p. 82), some capital, though possibly made and accumulated by the hunter himself, would be necessary to enable him to kill his game. Without some weapon, neither the

beaver nor the deer could be destroyed, and therefore the value of these animals would be regulated, not solely by the time and labour necessary to their destruction, but also by the time and labour necessary for providing the hunter's capital, the weapon, by the aid of which their destruction was effected.

Suppose the weapon necessary to kill the beaver was constructed with much more labour than that necessary to kill the deer, on account of the greater difficulty of approaching near to the former animal, and the consequent necessity of its being more true to its mark; one beaver would naturally be of more value than two deer, and precisely for this reason, that more labour would, on the whole, be necessary to its destruction.

All the implements necessary to kill the beaver and deer might belong to one class of men, and the labour employed in their destruction might be furnished by another class; still their comparative prices would be in proportion to the actual labour bestowed, both on the formation of the capital, and on the destruction of the animals. Under different circumstances of plenty or scarcity of capital, as compared with labour, under different circumstances of plenty or scarcity of the food and necessaries essential to the support of men, those who furnished an equal value of capital for either one employment or for the other, might have a half, a fourth, or an eighth of the produce obtained, the remainder being paid as wages to those who furnished the labour; yet this division could not affect the relative value of these commodities, since whether the profits of capital were greater or less, whether they were 50, 20, or 10 per cent., or whether the wages of labour were high or low, they would operate equally on both employments.

If we suppose the occupations of the society extended, that some provide canoes and tackle necessary for fishing, others the seed and rude machinery first used in agriculture, still the same principle would hold true, that the exchangeable value of the commodities produced would be in proportion to the labour bestowed on their production;

not on their immediate production only, but on all those implements or machines required to give effect to the particular labour to which they were applied.

If we look to a state of society in which greater improvements have been made, and in which arts and commerce flourish, we shall still find that commodities vary in value conformably with this principle: in estimating the exchangeable value of stockings, for example, we shall find that their value, comparatively with other things, depends on the total quantity of labour necessary to manufacture them, and bring them to market. First, there is the labour necessary to cultivate the land on which the raw cotton is grown; secondly, the labour of conveying the cotton to the country where the stockings are to be manufactured, which includes a portion of the labour bestowed in building the ship in which it is conveyed, and which is charged in the freight of the goods; thirdly, the labour of the spinner and weaver; fourthly, a portion of the labour of the engineer, smith, and carpenter, who erected the buildings and machinery, by the help of which they are made; fifthly, the labour of the retail dealer, and of many others, whom it is unnecessary further to particularise. The aggregate sum of these various kinds of labour determines the quantity of other things for which these stockings will exchange, while the same consideration of the various quantities of labour which have been bestowed on those other things will equally govern the portion of them which will be given for the stockings.

To convince ourselves that this is the real foundation of exchangeable value, let us suppose any improvement to be made in the means of abridging labour in any one of the various processes through which the raw cotton must pass, before the manufactured stockings come to the market, to be exchanged for other things; and observe the effects which will follow. If fewer men were required to cultivate the raw cotton, or if fewer sailors were employed in navigating, or shipwrights in constructing the ship, in which it was conveyed to us; if fewer hands were employed in raising

the buildings and machinery, or if these, when raised, were rendered more efficient, the stockings would inevitably fall in value, and consequently command less of other things. They would fall, because a less quantity of labour was necessary to their production, and would therefore exchange for a smaller quantity of those things in which no such abridgment of labour had been made.

Economy in the use of labour never fails to reduce the relative value of a commodity, whether the saving be in the labour necessary to the manufacture of the commodity itself, or in that necessary to the formation of the capital, by the aid of which it is produced. In either case the price of stockings would fall, whether there were fewer men employed as bleachers, spinners, and weavers, persons immediately necessary to their manufacture; or as sailors, carriers, engineers, and smiths, persons more indirectly concerned. In the one case, the whole saving of labour would fall on the stockings, because that portion of labour was wholly confined to the stockings; in the other, a portion only would fall on the stockings, the remainder being applied to all those other commodities, to the production of which the buildings, machinery, and carriage were subservient.

In every society the capital which is employed in production is necessarily of limited durability. The food and clothing consumed by the labourer, the buildings in which he works, the implements with which his labour is assisted, are all of a perishable nature. There is, however, a vast difference in the time for which these different capitals will endure; a steam-engine will last longer than a ship, a ship than the clothing of the labourer, and the clothing of the labourer longer than the food which he consumes.

According as capital is rapidly perishable, and requires to be frequently reproduced, or is of slow consumption, it is classed under the heads of circulating or of fixed capital. A brewer, whose buildings and machinery are valuable and durable, is said to employ a large portion of fixed capital: on the contrary, a shoemaker, whose capital is chiefly

employed in the payment of wages, which are expended on food and clothing, commodities more perishable than buildings and machinery, is said to employ a large proportion of his capital as circulating capital.

Two trades, then, may employ the same amount of capital; but it may be very differently divided with respect to the portion which is fixed, and that which is circulating.

Again, two manufacturers may employ the same amount of fixed and the same amount of circulating capital; but the durability of their fixed capitals may be very unequal. One may have steam-engines of the value of £10,000, the other, ships of the same value.

Besides the alteration in the relative value of commodities, occasioned by more or less labour being required to produce them, they are also subject to fluctuations from a rise of wages, and consequent fall of profits, if the fixed capitals employed be either of unequal value or of unequal duration.

Suppose that in the early stages of society, the bows and arrows of the hunter were of equal value, and of equal duration, with the canoe and implements of the fisherman, both being the produce of the same quantity of labour. Under such circumstances the value of the deer, the produce of the hunter's day's labour, would be exactly equal to the value of the fish, the produce of the fisherman's day's labour. The comparative value of the fish and the game, would be entirely regulated by the quantity of labour realised in each; whatever might be the quantity of production, or however high or low general wages or profits might be. If, for example, the canoes and implements of the fisherman were of the value of £100 and were calculated to last for ten years, and he employed ten men, whose annual labour cost £100 and who in one day obtained by their labour twenty salmon: If the weapons employed by the hunter were also of £100 value and calculated to last ten years, and if he also employed ten men, whose annual labour cost £100 and who in one day procured him ten deer; then the natural price of a deer would be two salmon,

whether the proportion of the whole produce bestowed on the men who obtained it were large or small. The proportion which might be paid for wages, is of the utmost importance in the question of profits; for it must at once be seen that profits would be high or low, exactly in proportion as wages were low or high; but it could not in the least affect the relative value of fish and game, as wages would be high or low at the same time in both occupations. If the hunter urged the plea of his paying a large proportion, or the value of a large proportion of his game for wages, as an inducement to the fisherman to give him more fish in exchange for his game, the latter would state that he was equally affected by the same cause; and therefore under all variations of wages and profits, under all the effects of the accumulation of capital, as long as they continued by a day's labour to obtain respectively the same quantity of fish, and the same quantity of game, the natural rate of exchange would be, one deer for two salmon.

If with the same quantity of labour a less quantity of fish, or a greater quantity of game were obtained, the value of fish would rise in comparison with that of game. If, on the contrary, with the same quantity of labour a less quantity of game, or a greater quantity of fish was obtained, game would rise in comparison with fish.

No alteration in the wages of labour could produce any alteration in the relative value of these commodities; for if profits were 10 per cent., then to replace the £100 circulating capital with 10 per cent. profit, there must be a return of £110: to replace the equal portion of fixed capital, when profits are at the rate of 10 per cent., there should be annually received £16.27; for, the present value of an annuity of £16.27 for ten years, when money is at 10 per cent., is £100; consequently all the game of the hunter should annually sell for £126.27. But the capital of the fisherman being the same in quantity, and divided in the same proportion into fixed and circulating capital, and being also of the same durability, he, to obtain the same profits, must sell his goods for the same value. If wages rose 10

per cent., and consequently 10 per cent. more circulating capital were required in each trade, it would equally affect both employments. In both, £210 instead of £200 would be required in order to produce the former quantity of commodities; and these would sell precisely for the same money —namely, £126.27: they would therefore be at the same relative value, and profits would be equally reduced in both trades.

The prices of the commodities would not rise, because the money in which they are valued is, by the supposition of an invariable value, always requiring the same quantity of labour to produce it.

If the fixed and circulating capitals were in different proportions, or if the fixed capital were of different durability, then the relative value of the commodities produced would be altered in consequence of a rise of wages.

First, when the fixed and circulating capitals were in different proportions, suppose that instead of £100 fixed capital and £100 circulating capital, the hunter should employ £150 fixed capital and £50 circulating capital, and that the fisherman should on the contrary employ only £50 fixed capital and £150 circulating capital.

If profits be 10 per cent., the hunter must sell his goods for £79 8s. For,

To replace his circulating capital of £50 with a profit of 10 per cent. would require a value of	£55
To replace his fixed capital with 10 per cent. profit, the present value of an annuity for ten years of £24.4 at 10 per cent. being £150 - - -	24.4
	£79.4

If profits be 10 per cent., the fisherman must sell his goods for £173 2s. 7d.

To replace his circulating capital of £150 with 10 per cent. profit - - - - -	£165
To replace his fixed capital with 10 per cent. profit, one-third of the hunter's - - - - -	8.13
	£173.13

Now if wages rise, although neither of these commodities should require more labour for their production, yet their relative value will be altered. Suppose wages to rise 6 per cent., the hunter would not require more than an increase of £3 to his capital, to employ the same number of men, and obtain the same quantity of game; the fisherman would require three times that sum, or £9. The profits of stock would fall to 4 per cent., the hunter would be obliged to sell his game for £73 12s. 2d.

To replace his circulating capital of £53 with a profit of 4 per cent. - - - - - -	£55.12
To replace fixed capital annually wasted, the present value of an annuity of £18.49 for ten years, when money is at 4 per cent., being £150 - - - - - - - - - -	18.49
	£73.61

The fisherman would sell his fish for £171 11s. 5d. —viz.,

To replace his circulating capital of £159 with a profit of 4 per cent. - - - - -	£165.360
To replace fixed capital annually wasted, the present value of an annuity of £6.163, for ten years at 4 per cent., being £50 - - - -	6.163
	£171.523

Game was to fish before as 100 to 218.
It would now be - - as 100 to 233.

Thus we see, that with every rise of wages, in proportion as the capital employed in any occupation consists of circulating capital, its produce will be of greater relative value than the goods produced in another occupation, where a less proportion of circulating, and a greater proportion of fixed capital are employed.

Secondly, suppose the proportions of fixed capital to be

the same; but of different degrees of durability. In proportion as fixed capital is less durable, it approaches to the nature of circulating capital. It will be consumed in a shorter time, and its value reproduced in order to preserve the capital of the manufacturer. We have just seen, that in proportion as circulating capital preponderates in a manufacture, when wages rise, the value of commodities produced in that manufacture is relatively higher than that of commodities produced in manufactures where fixed capital preponderates. In proportion to the less durability of fixed capital, and its approach to the nature of circulating capital, the same effect will be produced by the same cause.

It appears, then, that in proportion to the quantity and the durability of the fixed capital employed in any kind of production, the relative prices of those commodities on which such capital is employed will vary inversely as wages; they will fall as wages rise. It appears too that no commodities whatever are raised in absolute price merely because wages rise; that they never rise unless additional labour be bestowed on them; but that all commodities in the production of which fixed capital enters, not only do not rise with a rise of wages, but absolutely fall.

Money, from its being a commodity obtained from a foreign country, from its being the general medium of exchange between all civilised countries, and from its being also distributed among those countries in proportions which are ever changing with every improvement in commerce and machinery, and with every increasing difficulty of obtaining food and necessaries for an increasing population, is subject to incessant variations. In stating the principles which regulate exchangeable value and price, we should carefully distinguish between those variations which belong to the commodity itself, and those which are occasioned by a variation in the medium in which value is estimated, or price expressed.

A rise in wages, from an alteration in the value of money, produces a general effect on price, and for that

reason it produces no real effect whatever on profits. On the contrary, a rise of wages, from the circumstance of the labourer being more liberally rewarded, or from a difficulty of procuring the necessaries on which wages are expended, does not, except in some instances, produce the effect of raising price, but has a great effect in lowering profits. In the one case, no greater proportion of the annual labour of the country is devoted to the support of the labourers; in the other case, a larger portion is so devoted.

It is according to the division of the whole produce of the land of any particular farm, between the three classes of landlord, capitalist, and labourer, that we are to judge of the rise or fall of rent, profit, and wages, and not according to the value at which that produce may be estimated in a medium which is confessedly variable.

It is not by the absolute quantity of produce obtained by either class that we can correctly judge of the rate of profit, rent, and wages, but by the quantity of labour required to obtain that produce. By improvements in machinery and agriculture, the whole produce may be doubled; but if wages, rent, and profit be also doubled, these three will bear the same proportions to one another as before, and neither could be said to have relatively varied. But if wages partook not of the whole of this increase; if they, instead of being doubled, were only increased one-half; if rent, instead of being doubled, were only increased three-fourths, and the remaining increase went to profit, it would, I apprehend, be correct for me to say, that rent and wages had fallen while profits had risen; for if we had an invariable standard by which to measure the value of this produce, we should find that a less value had fallen to the class of labourers and landlords, and a greater to the class of capitalists, than had been given before. We might find, for example, that though the absolute quantity of commodities had been doubled, they were the produce of precisely the former quantity of labour. Of every hundred hats, coats, and quarters of corn produced, if

The labourers had before	25
The landlords	25
And the capitalists . . .	50
	100:

And if, after these commodities were double the quantity, of every 100

The labourers had only .	22
The landlords	22
And the capitalists . . .	56
	100:

In that case I should say, that wages and rent had fallen and profits risen; though, in consequence of the abundance of commodities, the quantity paid to the labourer and landlord would have increased in the proportion of 25 to 44. Wages are to be estimated by their real value—viz., by the quantity of labour and capital employed in producing them, and not by their nominal value either in coats, hats, money, or corn. Under the circumstances I have just supposed, commodities would have fallen to half their former value, and, if money had not varied, to half their former price also. If then in this medium, which had not varied in value, the wages of the labourer should be found to have fallen, it will not the less be a real fall, because they might furnish him with a greater quantity of cheap commodities than his former wages.

The variation in the value of money, however great, makes no difference in the *rate* of profits; for suppose the goods of the manufacturer to rise from £1000 to £2000, or 100 per cent., if his capital, on which the variations of money have as much effect as on the value of produce, if his machinery, buildings, and stock-in-trade rise also 100 per cent., his rate of profits will be the same, and he will have the same quantity, and no more, of the produce of the labour of the country at his command.

If, with a capital of a given value, he can, by economy in labour, double the quantity of produce, and it fall to half its former price, it will bear the same proportion to the capital that produced it which it did before, and consequently profits will still be at the same rate.

If, at the same time that he doubles the quantity of produce by the employment of the same capital, the value of money is by any accident lowered one-half, the produce will sell for twice the money value that it did before; but the capital employed to produce it will also be of twice its former money value; and therefore in this case too, the value of the produce will bear the same proportion to the value of the capital as it did before; and although the produce be doubled, rent, wages, and profits will only vary as the proportions vary, in which this double produce may be divided among the three classes that share it.

It remains, however, to be considered, whether the appropriation of land, and the consequent creation of rent, will occasion any variation in the relative value of commodities, independently of the quantity of labour necessary to production.

CHAPTER IV.

RENT.

M'CULLOCH.

ADAM SMITH was of opinion that, after land had become property, and rent began to be paid, such rent made an equivalent addition to the exchangeable value of the produce of the soil. This opinion was first called in question in two pamphlets of extraordinary merit, published nearly at the same time, by a Fellow of University College, Oxford,[1] and Mr. Malthus.[2] These writers endeavoured to show that rent did not enter into price; that it was not, as had been commonly supposed, a consequence of land having been divided and become property; but that it was owing to its being of limited extent, and of various degrees of fertility, and to the circumstance of its being impossible to apply capital indefinitely to any quality of land without obtaining from it a constantly diminishing return. Mr. Ricardo subsequently illustrated and enforced this doctrine with his usual ability—stripped it of the errors by which it had been originally encumbered, and showed its vast importance to a right understanding of the laws which regulate the rise and fall of profits.

[1] *Essay on the Application of Capital to Land*, by a Fellow (Mr. West) of University College, Oxford, 1815.

[2] *An Inquiry into the Nature and Progress of Rent*, by the Rev. T. R. Malthus, 1815.

MALTHUS.

The earth has been sometimes compared to a vast machine, presented by nature to man for the production of food and raw materials; but to make the resemblance more just, as far as they admit of comparison, we should consider the soil as a present to man of a great number of machines, all susceptible of continued improvement by the application of capital to them, but yet of very different original qualities and powers.

This great inequality in the powers of the machinery employed in procuring raw produce, forms one of the most remarkable features which distinguishes the machinery of the land from the machinery employed in manufactures.

When a machine in manufactures is invented, which will produce more finished work with less labour and capital than before, if there be no patent, or as soon as the patent is over, a sufficient number of such machines may be made to supply the whole demand, and to supersede entirely the use of all the old machinery. The natural consequence is, that the price is reduced to the price of production from the best machinery, and if the price were to be depressed lower, the whole of the commodity would be withdrawn from the market.

The machines which produce corn and raw materials, on the contrary, are the gifts of nature, not the works of man; and we find by experience that these gifts have very different qualities and powers. The most fertile lands of a country, those which, like the best machinery in manufactures, yield the greatest products with the least labour and capital, are never found sufficient to supply the effective demand of an increasing population. The price of raw produce, therefore, naturally rises till it becomes sufficiently high to pay the cost of raising it with inferior machines, and by a more expensive process: and, as there cannot be two prices for corn of the same quality, all the other machines, the working of which requires less capital com-

pared with the produce must *yield rents in proportion to their goodness.*

Every extensive country may thus be considered as possessing a gradation of machines for the production of corn and raw materials, including in this gradation not only all the various qualities of poor land, of which every large territory has generally an abundance, but the inferior machinery which may be said to be employed when good land is further and further forced for additional produce. As the price of raw produce continues to rise, these inferior machines are successively called into action; and, as the price of raw produce continues to fall, they are successively thrown out of action. The illustration here used serves to show at once the necessity of the actual price of corn to the actual produce, and the different effect which would attend a great reduction in the price of any particular manufacture, and a great reduction in the price of raw produce.

I have no hesitation, then, in affirming, that the reason why the real price of corn is higher and continually rising in countries which are already rich, and still advancing in prosperity and population, is to be found in the necessity of resorting constantly to poorer land—to machines which require a greater expenditure to work them—and which consequently occasion each fresh addition to the raw produce of the country to be purchased at a greater cost;—in short, it is to be found in the important truth that corn *is sold at the price necessary to yield the actual supply; and that, as the production of this supply becomes more and more difficult, the price rises in proportion.*

I hope to be excused for having dwelt so long and presented to the reader in various forms the doctrine that corn, in reference to the *quantity actually produced*, is sold at its necessary price like manufactures, because I consider it as a truth of the highest importance, which has been entirely overlooked by the economists, by Adam Smith, and all those writers who have presented raw produce as selling always at a monopoly price.

RICARDO.

Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. If, of two adjoining farms of the same extent, and of the same natural fertility, one had all the conveniences of farming buildings, and, besides, were properly drained and manured, and advantageously divided by hedges, fences, and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one than for the use of the other; yet in both cases this remuneration would be called rent. But it is evident that a portion only of the money annually to be paid for the improved farm, would be given for the original and indestructible powers of the soil; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary to secure and preserve the produce. Adam Smith sometimes speaks of rent in the strict sense to which I am desirous of confining it, but more often in the popular sense in which the term is usually employed.

On the first settling of a country in which there is an abundance of rich and fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent; for no one would pay for the use of land when there was an abundant quantity not yet appropriated, and, therefore, at the disposal of whosoever might choose to cultivate it.

On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quan-

tity. With a given quantity of materials, and with the assistance of the pressure of the atmosphere, and the elasticity of steam, engines may perform work, and abridge human labour to a very great extent; but no charge is made for the use of these natural aids, because they are inexhaustible, and at every man's disposal. In the same manner, the brewer, the distiller, the dyer, make incessant use of the air and water for the production of their commodities; but as the supply is boundless, they bear no price. If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land.

When land of the third quality is taken into cultivation, rent immediately commences on the second, and it is regulated as before, by the difference in their productive powers. At the same time, the rent of the first quality will rise, for that must always be above the rent of the second, by the difference between the produce which they yield with a given quantity of capital and labour. With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food, rent, on all the more fertile land, will rise.

Thus suppose land—Nos. 1, 2, 3—to yield, with an equal employment of capital and labour, a net produce of 100, 90, and 80 quarters of corn. In a new country, where there is an abundance of fertile land compared with the population, and where therefore it is only necessary to cultivate No. 1,

the whole net produce will belong to the cultivator, and will be the profits of the stock which he advances. As soon as population had so far increased as to make it necessary to cultivate No. 2, from which ninety quarters only can be obtained after supporting the labourers, rent would commence on No. 1; for either there must be two rates of profit on agricultural capital, or ten quarters, or the value of ten quarters, must be withdrawn from the produce of No. 1, for some other purpose. Whether the proprietor of the land, or any other person, cultivated No. 1, these ten quarters would equally constitute rent; for the cultivator of No. 2 would get the same result with his capital, whether he cultivated No. 1, paying ten quarters for rent, or continued to cultivate No. 2, paying no rent. In the same manner it might be shown that when No. 3 is brought into cultivation, the rent of No. 2 must be ten quarters, or the value of ten quarters, whilst the rent of No. 1 would rise to twenty quarters; for the cultivator of No. 3 would have the same profits whether he paid twenty quarters for the rent of No. 1, ten quarters for the rent of No. 2, or cultivated No. 3 free of all rent.

It often, and, indeed, commonly happens, that before Nos. 2, 3, 4, or 5, or the inferior lands are cultivated, capital can be employed more productively on those lands which are already in cultivation. It may perhaps be found, that by doubling the original capital employed on No. 1, though the produce will not be doubled, will not be increased by 100 quarters, it may be increased by eighty-five quarters, and that this quantity exceeds what could be obtained by employing the same capital, on land No. 3.

In such case, capital will be preferably employed on the old land, and will equally create a rent; for rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour. If with a capital of £1000, a tenant obtain 100 quarters of wheat from his land, and by the employment of a second capital of £1000, he obtain a further return of eighty-

five, his landlord would have the power at the expiration of his lease, of obliging him to pay fifteen quarters, or an equivalent value for additional rent; for there cannot be two rates of profit. If he is satisfied with a diminution of fifteen quarters in the return for his second £1000, it is because no employment more profitable can be found for it. The common rate of profit would be in that proportion, and if the original tenant refused, some other person would be found willing to give all which exceeded that rate of profit to the owner of the land from which he derived it.

In this case, as well as in the other, the capital last employed pays no rent. For the greater productive powers of the first £1000, fifteen quarters is paid for rent, for the employment of the second £1000 no rent whatever is paid. If a third £1000 be employed on the same land, with a return of seventy-five quarters, rent will then be paid for the second £1000, and will be equal to the difference between the produce of these two, or ten quarters; and, at the same time, the rent of the first £1000 will rise from fifteen to twenty-five quarters; while the last £1000 will pay no rent whatever.

If, then, good land existed in a quantity much more abundant than the production of food for an increasing population required, or if capital could be indefinitely employed without a diminished return on the old land, there could be no rise of rent; for rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return.

The most fertile, and most favourably situated, land will be first cultivated, and the exchangeable value of its produce will be adjusted in the same manner as the exchangeable value of all other commodities, by the total quantity of labour necessary in various forms from first to last, to produce it, and bring it to market. When land of an inferior quality is taken into cultivation, the exchangeable value of raw produce will rise, because more labour is required to produce it.

The exchangeable value of all commodities, whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labour that will suffice for their production under circumstances highly favourable, and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of labour necessarily bestowed on their production by those who have no such facilities; by those who continue to produce them under the most unfavourable circumstances; meaning by "the most unfavourable circumstances" the most unfavourable under which the quantity of produce required renders it necessary to carry on the production.

It is true, that on the best land, the same produce would still be obtained with the same labour as before, but its value would be enhanced in consequence of the diminished returns obtained by those who employed fresh labour and stock on the less fertile land. Notwithstanding, then, that the advantages of fertile over inferior lands are in no case lost, but only transferred from the cultivator, or consumer, to the landlord, yet, since more labour is required on the inferior lands, and since it is from such land only that we are enabled to furnish ourselves with the additional supply of raw produce, the comparative value of that produce will continue permanently above its former level, and make it exchange for more hats, cloth, shoes, etc., etc., in the production of which no such additional quantity of labour is required.

The reason, then, why raw produce rises in comparative value, is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. The value of corn is regulated by the quantity of labour bestowed on its production on that quality of land, or with that portion of capital, which pays no rent. Corn is not high because a rent is paid, but a rent is paid because corn is high; and it has been justly observed, that no reduction would take place in the price of corn, although landlords should forgo the whole of their

rent. Such a measure would only enable some farmers to live like gentlemen, but would not diminish the quantity of labour necessary to raise raw produce on the least productive land in cultivation.

Nothing is more common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent. It is singular that this quality in the land, which should have been noticed as an imperfection, compared with the natural agents by which manufacturers are assisted, should have been pointed out as constituting its peculiar pre-eminence. If air, water, the elasticity of steam, and the pressure of the atmosphere, were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they, as well as the land, would afford a rent, as the successive qualities were brought into use. With every worse quality employed, the value of the commodities in the manufacture of which they were used, would rise, because equal quantities of labour would be less productive. Man would do more by the sweat of his brow, and nature perform less; and the land would be no longer pre-eminent for its limited powers.

If the surplus produce which land affords in the form of rent be an advantage, it is desirable that, every year, the machinery newly constructed should be less efficient than the old, as that would undoubtedly give a greater exchangeable value to the goods manufactured, not only by that machinery but by all the other machinery in the kingdom; and a rent would be paid to all those who possessed the most productive machinery.

The rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population. It is a symptom, but

it is never a cause of wealth; for wealth often increases most rapidly while rent is either stationary, or even falling. Rent increases most rapidly as the disposable land decreases in its productive powers. Wealth increases most rapidly in those countries where the disposable land is most fertile, where importation is least restricted, and where through agricultural improvements, productions can be multiplied without any increase in the proportional quantity of labour, and where consequently the progress of rent is slow.

If the high price of corn were the effect, and not the cause of rent, price would be proportionally influenced as rents were high or low, and rent would be a component part of price. But that corn which is produced by the greatest quantity of labour is the regulator of the price of corn; and rent does not and cannot enter in the least degree as a component part of its price. Adam Smith, therefore, cannot be correct in supposing that the original rule which regulated the exchangeable value of commodities —namely, the comparative quantity of labour by which they were produced, can be at all altered by the appropriation of land and the payment of rent. Raw material enters into the composition of most commodities, but the value of that raw material, as well as corn, is regulated by the productiveness of the portion of capital last employed on the land, and paying no rent; and therefore rent is not a component part of the price of commodities.

We have been hitherto considering the effects of the natural progress of wealth and population on rent, in a country in which the land is of variously productive powers; and we have seen, that with every portion of additional capital which it becomes necessary to employ on the land with a less productive return, rent would rise. It follows from the same principles, that any circumstances in the society which should make it unnecessary to employ the same amount of capital on the land, and which should therefore make the portion last employed more productive,

would lower rent. Any great reduction in the capital of a country, which should materially diminish the funds destined for the maintenance of labour, would naturally have this effect. Population regulates itself by the funds which are to employ it, and therefore always increases or diminishes with the increase or diminution of capital. Every reduction of capital is therefore necessarily followed by a less effective demand for corn, by a fall of price, and by diminished cultivation. In the reverse order to that in which the accumulation of capital raises rent, will the diminution of it lower rent. Land of a less unproductive quality will be in succession relinquished, the exchangeable value of produce will fall, and land of a superior quality will be the last land cultivated, and that which will then pay no rent.

The same effects may however be produced, when the wealth and population of a country are increased, if that increase is accompanied by such marked improvements in agriculture as shall have the same effect of diminishing the necessity of cultivating the poorer lands, or of expending the same amount of capital on the cultivation of the more fertile portions.

If a million of quarters of corn be necessary for the support of a given population, and it be raised on land of the qualities of Nos. 1, 2, 3; and if an improvement be afterwards discovered by which it can be raised on Nos. 1 and 2, without employing No. 3, it is evident that the immediate effect must be a fall of rent; for No. 2 instead of No. 3, will then be cultivated without paying any rent; and the rent of No. 1, instead of being the difference between the produce of No. 3 and No. 1, will be the difference only between Nos. 2 and 1. With the same population, and no more, there can be no demand for any additional quantity of corn; the capital and labour employed on No. 3 will be devoted to the production of other commodities desirable to the community, and can have no effect in raising rent, unless the raw material from which they are made cannot be obtained without employing capital less advan-

tageously on the land, in which case No. 3 must again be cultivated.

It is undoubtedly true, that the fall in the relative price of raw produce, in consequence of the improvement in agriculture, or rather in consequence of less labour being bestowed on its production, would naturally lead to increased accumulation; for the profits of stock would be greatly augmented. This accumulation would lead to an increased demand for labour, to higher wages, to an increased population, to a further demand for raw produce, and to an increased cultivation. It is only, however, after the increase in the population, that rent would be as high as before; that is to say, after No. 3 was taken into cultivation. A considerable period would have elapsed, attended with a positive diminution of rent.

But improvements in agriculture are of two kinds: those which increase the productive powers of the land, and those which enable us, by improving our machinery, to obtain its produce with less labour. They both lead to a fall in the price of raw produce; they both affect rent, but they do not affect it equally. If they did not occasion a fall in the price of raw produce, they would not be improvements; for it is the essential quality of an improvement to diminish the quantity of labour before required to produce a commodity; and this diminution cannot take place without a fall of its price or relative value.

The improvements which increase the productive powers of the land are such as the more skilful rotation of crops, or the better choice of manure. These improvements absolutely enable us to obtain the same produce from a smaller quantity of land. If, by the introduction of a course of turnips, I can feed my sheep besides raising my corn, the land on which the sheep were before fed becomes unnecessary, and the same quantity of raw produce is raised by the employment of a less quantity of land. If I discover a manure which will enable me to make a piece of land produce 20 per cent. more corn, I may withdraw at least a portion of my capital from the most unproductive part of

my farm. But, as I before observed, it is not necessary that land should be thrown out of cultivation, in order to reduce rent: to produce this effect, it is sufficient that successive portions of capital are employed on the same land with different results, and that the portion which gives the least result should be withdrawn. If, by the introduction of the turnip husbandry, or by the use of a more invigorating manure, I can obtain the same produce with less capital, and without disturbing the difference between the productive powers of the successive portions of capital, I shall lower rent; for a different and more productive portion will be that which will form the standard from which every other will be reckoned. If, for example, the successive portions of capital yielded 100, 90, 80, 70; whilst I employed these four portions, my rent would be 60, or the difference between

70 and 100 = 30	whilst the produce would be 340	100	
70 and 90 = 20		90	
70 and 80 = 10		80	
60		70	
		340	

and while I employed these portions, the rent would remain the same, although the produce of each should have an equal augmentation. If, instead of 100, 90, 80, 70, the produce should be increased to 125, 115, 105, 95, the rent would still be 60, or the difference between

95 and 125 = 30	whilst the produce would be increased to 440.	125	
95 and 115 = 20		115	
95 and 105 = 10		105	
60		95	
		440	

But with such an increase of produce, without an increase of demand, there could be no motive for employing so much capital on the land; one portion would be withdrawn, and consequently the last portion of capital would

yield 105 instead of 95, and rent would fall to 30, or the difference between

$$\left.\begin{array}{r} 105 \text{ and } 125 = 20 \\ 105 \text{ and } 115 = 10 \\ \hline 30 \end{array}\right\} \text{whilst the produce will be still adequate to the wants of the population, for it would be } 345 \left\{\begin{array}{r} 125 \\ 115 \\ 105 \\ \hline 345 \end{array}\right. \text{ quarters, or}$$

the demand being only for 340 quarters.

But there are improvements which may lower the relative value of produce without lowering the corn rent, though they will lower the money rent of land. Such improvements do not increase the productive powers of the land; but they enable us to obtain its produce with less labour. They are rather directed to the formation of the capital applied to the land, than to the cultivation of the land itself. Improvements in agricultural implements, such as the plough and the thrashing machine, economy in the use of horses employed in husbandry, and a better knowledge of the veterinary art, are of its nature. Less capital, which is the same thing as less labour, will be employed on the land; but to obtain the same produce, less land cannot be cultivated. Whether improvements of this kind, however, affect corn rent, must depend on the question whether the difference between the produce obtained by the employment of different portions of capital be increased, stationary, or diminished. If four portions of capital, 50, 60, 70, 80, be employed on the land, giving each the same results, and any improvement in the formation of such capital should enable me to withdraw 5 from each, so that they should be 45, 55, 65, and 75, no alteration would take place in the corn rent; but if the improvements were such as to enable me to make the whole saving on that portion of capital which is least productively employed, corn rent would immediately fall, because the difference between the capital most productive, and the capital least productive, would be diminished; and it is this difference which constitutes rent.

Without multiplying instances, I hope enough has been said to show, that whatever diminishes the inequality in the produce obtained from successive portions of capital employed on the same or on new land, tends to lower rent; and that whatever increases that inequality, necessarily produces an opposite effect, and tends to raise it.

In speaking of the rent of the landlord, we have rather considered it as the proportion of the produce, obtained with a given capital on any given farm, without any reference to its exchangeable value; but since the same cause, the difficulty of production, raises the exchangeable value of raw produce, and raises also the proportion of raw produce paid to the landlord for rent, it is obvious that the landlord is doubly benefited by difficulty of production. First he obtains a greater share, and secondly the commodity in which he is paid is of greater value.

To make this obvious, and to show the degrees in which corn and money rent will vary, let us suppose that the labour of ten men will, on land of a certain quality, obtain 180 quarters of wheat, and its value to be £4 per quarter, or £720; and that the labour of ten additional men will, on the same or any other land, produce only 170 quarters in addition; wheat would rise from £4 to £4 4s. 8d. for 170 : 180 : : £4 : £4 4s. 8d.; or, as in the production of 170 quarters, the labour of ten men is necessary in one case, and only of 9.44 in the other, the rise would be as 9.44 to 10, or as £4 to £4 4s. 8d. If ten men be further employed, and the return be

160, the price will rise to	£4	10	0
150, " "	4	16	0
140, " "	5	2	10

Now if no rent was paid for the land which yielded 180 quarters, when corn was at £4 per quarter, the value of 10 quarters would be paid as rent when only 170 could be procured, which, at £4 4s. 8d. would be £42 7s. 6d.

20 quarters when 160 were produced, which at £4 10s. would be £90.
30 quarters when 150 were produced, which at £4 16s. would be £144.
40 quarters when 140 were produced, which at £5 2s. 10d. would be £205 13s. 4d.

Corn rent would increase in the proportion of $\begin{Bmatrix}100\\200\\300\\400\end{Bmatrix}$ and money rent in the proportion of $\begin{Bmatrix}100\\212\\340\\485\end{Bmatrix}$

J. S. MILL.

This is the theory of rent, first propounded at the end of the last century by Dr. Anderson, and which, neglected at the time, was almost simultaneously rediscovered, twenty years later, by Sir Edward West, Mr. Malthus, and Mr. Ricardo. It is one of the cardinal doctrines of Political Economy; and until it was understood, no consistent explanation could be given of many of the more complicated industrial phenomena.

It has been denied that there can be any land in cultivation which pays no rent; because landlords (it is contended) would not allow their land to be occupied without payment. Those who lay any stress on this as an objection, must think that land of the quality which can but just pay for its cultivation lies together in large masses, detached from any land of better quality. If an estate consisted wholly of this land, or of this and still worse, it is likely enough that the owner would not give the use of it for nothing; he would probably (if a rich man) prefer keeping it for other purposes, as for exercise, or ornament, or perhaps as a game preserve. No farmer could afford to offer him anything for it, for purposes of culture; though something would probably be obtained for the use of its natural pasture, or other spontaneous produce. Even such land, however, would not necessarily remain uncultivated. It

might be farmed by the proprietor; no unfrequent case even in England. Portions of it might be granted as temporary allotments to labouring families, either from philanthropic motives, or to save the poor rate; or occupation might be allowed to squatters, free of rent, in the hope that their labour might give it value at some future period. Both these cases are of quite ordinary occurrence. So that even if an estate were wholly composed of the worst land capable of profitable cultivation, it would not necessarily lie uncultivated because it could pay no rent. Inferior land, however, does not usually occupy, without interruption, many square miles of ground; it is dispersed here and there, with patches of better land intermixed, and the same person who rents the better land, obtains along with it the inferior soils which alternate with it. He pays a rent, nominally for the whole farm, but calculated on the produce of those parts alone (however small a portion of the whole) which are capable of returning more than the common rate of profit. It is thus scientifically true, that the remaining parts pay no rent.

Let us, however, suppose that there was a validity in this objection, which can by no means be conceded to it; that when the demand of the community had forced up food to such a price as would remunerate the expense of producing it from a certain quality of soil, it happened nevertheless that all the soil of that quality was withheld from cultivation, by the obstinacy of the owners in demanding a rent for it, not nominal, nor trifling, but sufficiently onerous to be a material item in the calculations of the farmer. What would then happen? Merely that the increase of produce, which the wants of society required, would for the time be obtained wholly (as it always is partially), not by an extension of cultivation, but by an increased application of labour and capital to land already cultivated. Now we have already seen that this increased application of capital, other things being unaltered, is always attended with a smaller proportional return. Even, therefore, if it were the fact that there is never any *land* taken into cultivation, for

which rent, and that too of an amount worth taking into consideration, was not paid; it would be true, nevertheless, that there is always some *agricultural capital* which pays no rent, because it returns nothing beyond the ordinary rate of profit: this capital being the portion of capital last applied —that to which the last addition to the produce was due; or (to express the essentials of the case in one phrase), that which is applied in the least favourable circumstances.

But with regard to capital actually sunk in improvements, and not requiring periodical renewal, but spent once for all in giving the land a permanent increase of productiveness, it appears to me that the return made to such capital loses altogether the character of profits, and is governed by the principles of rent. It is true that a landlord will not expend capital in improving his estate, unless he expects from the improvement an increase of income, surpassing the interest of his outlay. Prospectively, this increase of income may be regarded as profit; but when the expense has been incurred, and the improvement made, the rent of the improved land is governed by the same rules as that of the unimproved. Equally fertile land commands an equal rent, whether its fertility is natural or acquired; and I cannot think that the incomes of those who own the Bedford Level or the Lincolnshire wolds ought to be called profit and not rent, because those lands would have been worth next to nothing unless capital had been expended on them. The owners are not capitalists, but landlords; they have parted with their capital; it is consumed, destroyed; and neither is, nor is to be, returned to them, like the capital of a farmer or manufacturer, from what it produces. In lieu of it they now have land, of a certain richness, which yields the same rent, and by the operation of the causes, as if it had possessed from the beginning the degree of fertility which has been artificially given to it.

Some writers, in particular Mr. H. C. Carey, take away, still more completely than I have attempted to do, the distinction between these two sources of rent, by rejecting one of them altogether, and considering all rent as the

effect of capital expended. In proof of this, Mr. Carey contends that the whole pecuniary value of all the land in any country, in England for instance, or in the United States, does not amount to anything approaching to the sum which has been laid out, or which it would even now be necessary to lay out, in order to bring the country to its present condition from a state of primeval forest. This startling statement has been seized on by M. Bastiat and others, as a means of making out a stronger case than could otherwise be made in defence of property in land. Mr. Carey's proposition, in its most obvious meaning, is equivalent to saying, that if there were suddenly added to the lands of England an unreclaimed territory of equal natural fertility, it would not be worth the while of the inhabitants of England to reclaim it: because the profits of the operation would not be equal to the ordinary interest on the capital expended. To which assertion, if any answer could be supposed to be required, it would suffice to remark, that land not of equal but of greatly inferior quality to that previously cultivated, is continually reclaimed in England, at an expense which the subsequently accruing rent is sufficient to replace completely in a small number of years. The doctrine, moreover, is totally opposed to Mr. Carey's own economical opinions. No one maintains more strenuously than Mr. Carey the undoubted truth, that as society advances in population, wealth, and combination of labour, land constantly rises in value and price. This, however, could not possibly be true if the present value of land were less than the expense of clearing it and making it fit for cultivation; for it must have been worth this immediately after it was cleared, and according to Mr. Carey it has been rising in value ever since. When, however, Mr. Carey asserts that the whole land of any country is not now worth the capital which has been expended on it, he does not mean that each particular estate is worth less than what has been laid out in improving it, and that, to the proprietors, the improvement on the land has been, on the final result, a miscalculation. He means, not that the land

of Great Britain would not now sell for what has been laid out upon it, but that it would not sell for that amount, plus the expense of making all the roads, canals, and railways. This is probably true, but is no more to the purpose, and no more important in Political Economy, than if the statement had been made that it would not sell for the sums laid out upon it plus the National Debt, or plus the cost of the French Revolutionary War, or any other expense incurred for a real or imaginary public advantage. The roads, railways, and canals were not constructed to give value to land: on the contrary, their natural effect was to lower its value, by rendering other and rival lands accessible: and the landholders of the southern counties actually petitioned Parliament against the turnpike roads on this very account. The tendency of improved communications is to lower existing rents, by trenching on the monopoly of the land nearest to the places where large numbers of consumers are assembled. Roads and canals are not intended to raise the value of the land which already supplies the markets, but (among other purposes) to cheapen the supply, by letting in the produce of other and more distant lands: and the more effectually this purpose is attained, the lower rent will be. If we could imagine that the railways and canals of the United States, instead of only cheapening communication, did their business so effectually as to annihilate cost of carriage altogether, and enable the produce of Michigan to reach the market of New York as quickly and as cheaply as the produce of Long Island—the whole value of all the land of the United States (except such as lies convenient for building) would be annihilated; or rather, the best would only sell for the expense of clearing, and the government tax of a dollar and a quarter per acre; since land in Michigan, equal to the best in the United States, may be had in unlimited abundance by that amount of outlay. But it is strange that Mr. Carey should think this fact inconsistent with the Ricardo theory of rent. Admitting all that he asserts, it is still true that as long as there is land which yields no rent, the land which does yield rent, does

so in consequence of some advantage which it enjoys, in fertility or vicinity to markets, over the other; and the measure of its advantage is also the measure of its rent. And the cause of its yielding rent, is that it possesses a natural monopoly; the quantity of land, as favourably circumstanced as itself, not being sufficient to supply the market. These propositions constitute the theory of rent, laid down by Ricardo; and if they are true, I cannot see that it signifies much whether the rent which the land yields at the present time, is greater or less than the interest of the capital which has been laid out to raise its value, together with the interest of the capital which has been laid out to lower its value.

Mr. Carey's objection, however, has somewhat more of ingenuity than the arguments commonly met with against the theory of rent: a theorem which may be called the *pons asinorum* of political economy, for there are, I am inclined to think, few persons who have refused their assent to it except from not having thoroughly understood it. The loose and inaccurate way in which it is often apprehended by those who affect to refute it, is very remarkable. Many, for instance, have imputed absurdity to Mr. Ricardo's theory, because it is absurd to say that the *cultivation* of inferior land is the cause of rent on the superior. Mr. Ricardo does not say that it is the cultivation of inferior land, but the *necessity of cultivating* it, from the insufficiency of the superior land to feed a growing population: between which and the proposition imputed to him there is no less a difference than that between demand and supply. Others again allege as an objection against Ricardo, that if all land were of equal fertility, it might still yield a rent. But Ricardo says precisely the same. He says that if all lands were equally fertile, those which are nearer to their market than others, and are therefore less burthened with cost of carriage, would yield a rent equivalent to the advantage; and that the land yielding no rent would then be, not the least fertile, but the least advantageously situated, which the wants of the community required to be brought into cultiva-

tion. It is also distinctly a portion of Ricardo's doctrine, that even apart from differences of situation, the land of a country supposed to be of uniform fertility would, all of it, on a certain supposition, pay rent—namely, if the demand of the community required that it should all be cultivated, and cultivated beyond the point at which a further application of capital begins to be attended with a smaller proportional return. It would be impossible to show that, except by forcible exaction, the whole land of a country can yield a rent on any other supposition.

CHAPTER V.

WAGES.

ADAM SMITH.

THE produce of Labour constitutes the natural recompense or wages of labour. In that original state of things which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him. Had this state continued, the wages of labour would have augmented with all those improvements in its productive powers, to which the division of labour gives occasion. All things would gradually have become cheaper. They would have been produced by a smaller quantity of labour; and as the commodities produced by equal quantities of labour would naturally in this state of things be exchanged for one another, they would have been purchased likewise with the produce of a smaller quantity.

But though all things would have become cheaper in reality, in appearance many things might have become dearer than before, or have been exchanged for a greater quantity of other goods. Let us suppose, for example, that in the greater part of employments the productive powers of labour had been improved to tenfold, or that a day's labour could produce ten times the quantity of work which it had done originally; but that in a particular employment they had been improved only to double, or that a day's labour could produce only twice the quantity of work which it had done before. In exchanging the produce of a day's labour in the greater part of employ-

ments, for that of a day's labour in this particular one, ten times the original quantity of work in them would purchase only twice the original quantity in it. Any particular quantity in it, therefore, a pound weight, for example, would appear to be five times dearer than before. In reality, however, it would be twice as cheap. Though it required five times the quantity of other goods to purchase it, it would require only half the quantity of labour either to purchase or produce it. The acquisition, therefore, would be twice as easy as before.

But this original state of things, in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock. It was at an end, therefore, long before the most considerable improvements were made in the productive powers of labour, and it would be to no purpose to trace further what might have been its effects upon the recompense or wages of labour. As soon as land becomes private property, the landlord demands a share of almost all the produce which the labourer can either raise or collect from it. His rent makes the first deduction from the produce of the labour employed upon land. It seldom happens that the person who tills the ground has wherewithal to maintain himself till he reaps the harvest. His maintenance is generally advanced to him from the stock of a master, the farmer who employs him, and who would have no interest to employ him unless he was to share in the produce of his labour, or unless his stock was to be replaced to him with a profit. This profit makes a second deduction from produce of the labour employed upon land. The produce of almost all other labour is liable to the like deduction of profit. In all arts and manufactures the greater part of the workmen stand in need of a master to advance them the materials of their work, and their wages and maintenance till it be completed. He shares in the produce of their labour, or in the value which it adds to the materials upon which it is bestowed, and in this consists his profit.

It sometimes happens, indeed, that a single independent workman has stock sufficient both to purchase the materials of his work, and to maintain himself till it be completed. He is both master and workman, and enjoys the whole produce of his own labour, or the whole value which it adds to the materials upon which it is bestowed. It includes what are usually two distinct revenues, belonging to two distinct persons, the profits of stock and the wages of labour.

Such cases, however, are not very frequent, and in every part of Europe, twenty workmen serve under a master for one that is independent, and the wages of labour are everywhere understood to be, what they usually are, when the labourer is one person, and the owner of the stock which employs him another.

What are the common wages of labour, depends everywhere upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine to raise, the latter to lower the wages of labour. It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorises, or at least does not prohibit their combinations, while it prohibits those of the workmen. (*Repealed*, 1824.) We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate.

We rarely hear, it has been said, of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but constant and uniform, combination, not to raise the wages of labour above their actual rate. To violate this combination is everywhere a most unpopular action, and a sort of reproach to a master among his neighbours and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of things which nobody ever hears of. Masters, too, sometimes enter into particular combinations to sink the wages of labour even below this rate. These are always conducted with the utmost silence and secrecy, till the moment of execution, and when the workmen yield, as they sometimes do, without resistance, though severely felt by them, they are never heard of by other people. Such combinations, however, are frequently resisted by a contrary defensive combination of the workmen; who sometimes, too, without any provocation of this kind, combine of their own accord to raise the price of their labour. Their usual pretences are, sometimes the high price of provisions, sometimes the great profit which their masters make by their work. But whether their combinations be offensive or defensive, they are always abundantly heard of. In order to bring the point to a speedy decision, they have always recourse to the loudest clamour, and sometimes to the most shocking violence and outrage. They are desperate, and act with the folly and extravagance of desperate men, who must either starve, or frighten their masters into an immediate compliance with their demands. The masters upon these occasions are just as clamorous upon the other side, and never cease to call aloud for the assistance of the civil magistrate, and the rigorous execution of those laws which have been enacted with so much severity against the combinations of servants, labourers, and journeymen. The workmen, accordingly, very seldom derive any advantage from the violence of those

tumultuous combinations, which, partly from the interposition of the civil magistrate, partly from the superior steadiness of the masters, partly from the necessity which the greater part of the workmen are under of submitting for the sake of present subsistence, generally end in nothing but the punishment or ruin of the ringleaders.

But though in disputes with their workmen, masters must generally have the advantage, there is, however, a certain rate below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour.

A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation. Mr. Cantillon seems, upon this account, to suppose that the lowest species of common labourers must everywhere earn at least double their own maintenance, in order that one with another they may be able to bring up two children; the labour of the wife, on account of her necessary attendance on the children, being supposed no more than sufficient to provide for herself. But one-half the children born, it is computed, die before the age of manhood. The poorest labourers, therefore, according to this account, must, one with another, attempt to rear at least four children, in order that two may have an equal chance of living to that age. But the necessary maintenance of four children, it is supposed, may be nearly equal to that of one man. The labour of an able-bodied slave, the same author adds, is computed to be worth double his maintenance; and that of the meanest labourer, he thinks, cannot be worth less than that of an able-bodied slave. Thus far at least seems certain, that in order to bring up a family, the labour of the husband and wife together must, even in the lowest species of common labour, be able to earn something more than what is precisely necessary for their own maintenance; but in what proportion, whether in that above

mentioned, or in any other, I shall not take upon me to determine.

There are certain circumstances which sometimes give the labourers an advantage, and enable them to raise their wages above this rate; evidently the lowest consistent with common humanity. When in any country the demand for those who live by wages—labourers, journeymen, servants of every kind, is continually increasing; when every year furnishes employment for a greater number than had been employed the year before, the workmen have no occasion to combine in order to raise their wages. The scarcity of hands occasions a competition among masters, who bid against one another, in order to get workmen, and thus voluntarily break through the natural combination of masters not to raise wages. The demand for those who live by wages, it is evident, cannot increase but in proportion to the increase of the funds which are destined for the payment of wages. These funds are of two kinds: I. The revenue which is over and above what is necessary for the maintenance; II. The stock which is over and above what is necessary for the employment of their masters. When the landlord, annuitant, or moneyed man has a greater revenue than what he judges sufficient to maintain his own family, he employs either the whole or a part of the surplus in maintaining one or more menial servants. Increase this surplus, and he will naturally increase the number of those servants.

When an independent workman, such as a weaver or shoemaker, has got more stock than what is sufficient to purchase the materials of his own work, and maintain himself till he can dispose of it, he naturally employs one or more journeymen with the surplus, in order to make a profit by their work. Increase this surplus, and he will naturally increase the number of his journeymen.

The demand for those who live by wages, therefore, necessarily increases with the increase of the revenue and stock of every country, and cannot possibly increase without it. The increase of revenue and stock is the increase of

national wealth. The demand for those who live by wages, therefore, naturally increases with the increase of national wealth, and cannot possibly increase without it.

It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour. It is not, accordingly, in the richest countries, but in the most thriving, or in those which are growing rich the fastest, that the wages of labour are highest. England is certainly, in the present times, a much richer country than any part of North America. The wages of labour, however, are much higher in North America than in any part of England.

But though North America is not yet so rich as England, it is much more thriving, and advancing with much greater rapidity to the further acquisition of riches. The most decisive mark of the prosperity of any country is the increase of the number of its inhabitants. In Great Britain, and most other European countries, they are not supposed to double in less than five hundred years. In the British colonies in North America, it has been found that they double in twenty or five-and-twenty years. Nor in the present times is this increase principally owing to the continual importation of new inhabitants, but to the great multiplication of the species. Those who live to old age, it is said, frequently see there from fifty to a hundred, and sometimes many more, descendants from their own body. Labour is there so well rewarded, that a numerous family of children, instead of being a burden, is a source of opulence and prosperity to the parents. The labour of each child, before it can leave their house, is computed to be worth a hundred pounds clear gains to them. A young widow with four or five young children, who, among the middling or inferior ranks of people in Europe, would have so little chance for a second husband, is there frequently courted as a sort of fortune. The value of children is the greatest of all encouragements to marriage. We cannot wonder that the people in North America should generally marry very young. Notwithstanding the great increase occasioned by

such marriages, there is a continual complaint of the scarcity of hands. The demand for labourers, the funds destined for maintaining them, increase still faster than they can find labourers to employ.

Though the wealth of a country should be very great, yet if it has been long stationary, we must not expect to find the wages of labour very high in it. The funds destined for the payment of wages, the revenue and stock of its inhabitants, may be of the greatest extent; but if they have continued for several centuries of the same, or very nearly of the same extent, the number of labourers employed every year could easily supply, and even more than supply, the number wanted the following year. There would seldom be any scarcity of hands, nor would the masters be obliged to bid against one another in order to get them. The hands, on the contrary, would in this case, naturally multiply beyond their employment. There would be a constant scarcity of employment, and the labourers would be obliged to bid against one another in order to get it. If in such a country the wages of labour had ever been more than sufficient to maintain the labourer, and to enable him to bring up a family, the competition of the labourers and the interest of the masters would soon reduce them to this lowest rate which is consistent with common humanity. China has been long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in the world. It seems, however, to have been long stationary. Marco Polo, who visited it more than five hundred years ago, describes its cultivation, industry, and populousness, almost in the same terms in which they are described by travellers in the present times. It had, perhaps, even long before his time, acquired that full complement of riches which the nature of its laws and institutions permits it to acquire. The accounts of all travellers, inconsistent in many other respects, agree in the low wages of labour, and in the difficulty which a labourer finds in bringing up a family in China. If by digging the ground a whole day he can get what will purchase a small quantity of

rice in the evening, he is contented. The condition of artificers is, if possible, still worse. Instead of waiting indolently in their workhouses for the calls of their customers, as in Europe, they are continually running about the streets with the tools of their respective trades, offering their service,—as it were begging employment. The poverty of the lower ranks of people in China far surpasses that of the most beggarly nations in Europe. In the neighbourhood of Canton many hundred, it is commonly said, many thousand families have no habitation on the land, but live constantly in little fishing-boats upon the rivers and canals. The subsistence which they find there is so scanty that they are eager to fish up the nastiest garbage thrown overboard from any European ship. Any carrion, the carcase of a dead dog or cat, for example, though half putrid and stinking, is as welcome to them as the most wholesome food to the people of other countries. Marriage is encouraged in China, not by the profitableness of children, but by the liberty of destroying them. In all great towns several are every night exposed in the streets, or drowned like puppies in the water. The performance of this horrid office is even said to be the avowed business by which some people earn their subsistence.

China, however, though it may perhaps stand still, does not seem to go backwards. Its towns are nowhere deserted by their inhabitants. The lands which had once been cultivated, are nowhere neglected. The same, or very nearly the same annual labour must continue to be performed, and the funds destined for maintaining it must not be sensibly diminished. The lowest class of labourers, therefore, notwithstanding their scanty subsistence, must some way or another make shift to continue their race so far as to keep up their usual numbers.

But it would be otherwise in a country where the funds destined for the maintenance of labour were sensibly decaying. Every year the demand for servants and labourers would, in all the different classes of employments, be less than it had been the year before. Many who had

been bred in the superior classes, not being able to find employment in their own business, would be glad to seek it in the lowest. The lowest class being not only overstocked with its own workmen, but with the overflowings of all the other classes, the competition for employment would be so great in it, as to reduce the wages of labour to the most miserable and scanty subsistence of the labourer. Many would not be able to find employment even upon these hard terms, but would either starve, or be driven to seek a subsistence, either by begging, or by the perpetration perhaps of the greatest enormities. Want, famine, and mortality would immediately prevail in that class, and from thence extend themselves to all the superior classes, till the number of inhabitants in the country was reduced to what could easily be maintained by the revenue and stock which remained in it, and which had escaped either the tyranny or calamity which had destroyed the rest. This perhaps is nearly the present state of Bengal, and of some other of the English settlements in the East Indies. In a fertile country which had before been much depopulated, where subsistence, consequently, should not be very difficult, and where, notwithstanding three or four hundred thousand people die of hunger in one year, we may be assured that the funds destined for the maintenance of the labouring poor are fast decaying. The difference between the genius of the British constitution which governs North America, and that of the mercantile company which oppresses the East Indies, cannot be better illustrated than by the different state of those countries.

The liberal reward of labour, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going fast backward. Servants, labourers, and workmen of different kinds make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an

inconveniency to the whole. No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged.

Every species of animals naturally multiplies in proportion to their means of subsistence, and no species can ever multiply beyond it. But in civilised society it is only among the inferior ranks of people that the scantiness of subsistence can set limits to the further multiplication of the human species; and it can do so in no other way than by destroying a great part of the children which their marriages produce.

The liberal reward of labour, by enabling them to provide better for their children, and consequently to bring up a greater number, naturally tends to widen and extend those limits. It deserves to be remarked, too, that it necessarily does this as nearly as possible in the proportion which the demand for labour requires. If this demand is continually increasing, the reward of labour must necessarily encourage in such a manner the marriage and multiplication of labourers as may enable them to supply that continually increasing demand by a continually increasing population. If the reward should at any time be less than what was requisite for this purpose, the deficiency of hands would soon raise it; and if it should at any time be more, their excessive multiplication would soon lower it to this necessary rate. The market would be so much under-stocked with labour in the one case, and so much over-stocked in the other, as would soon force back its price to that proper rate which the circumstances of the society required. It is in this manner that the demand for men, like that for any other commodity, necessarily regulates the production of men; quickens it when it goes on too slowly, and stops it when it advances too fast. It is this demand which regulates and determines the state of propagation in all the

different countries of the world, in North America, in Europe, and in China; which renders it rapidly progressive in the first, slow and gradual in the second, and altogether stationary in the last.

If in the same neighbourhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments. This at least would be the case in a society where things were left to follow their natural course, where there was perfect liberty, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper. Every man's interest would prompt him to seek the advantageous, and to shun the disadvantageous employment.

Pecuniary wages and profit, indeed, are everywhere in Europe extremely different according to the different employments of labour and stock. But this difference arises partly from certain circumstances in the employments themselves, which, either really or at least in the imaginations of men, make up for a small pecuniary gain in some, and counter-balance a great one in others; and partly from the policy of Europe, which nowhere leaves things at perfect liberty.

The five following are the principal circumstances which, so far as I have been able to observe, make up for a small pecuniary gain in some employments, and counterbalance a great one in others: I. The agreeableness or disagreeableness of the employments themselves; II. The easiness and cheapness, or the difficulty and expense of learning them; III. The constancy or inconstancy of employment in them; IV. The small or great trust which must be reposed in those who exercise them; and V., the probability or improbability of success in them.

I. The wages of labour vary with the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness of the employment. Thus in most places,

take the year round, a journeyman tailor earns less than a journeyman weaver. His work is much easier. A journeyman weaver earns less than a journeyman smith. His work is not always easier, but it is much cleaner. A journeyman blacksmith, though an artificer, seldom earns so much in twelve hours as a collier, who is only a labourer, does in eight. His work is not quite so dirty, is less dangerous, and is carried on in daylight and above ground. Honour makes a great part of the reward of all honourable professions. In point of pecuniary gain, all things considered, they are generally under-recompensed, as I shall endeavour to show by-and-by. Disgrace has the contrary effect. The trade of a butcher is a brutal and an odious business; but it is in most places more profitable than the greater part of trades. The most detestable of all employments, that of public executioner, is, in proportion to the quantity of work done, better paid than any common trade whatever.

Hunting and fishing, the most important employments of mankind in the rude state of society, become in its advanced state their most agreeable amusements, and they pursue for pleasure what they once followed from necessity. In the advanced state of society, therefore, they are all very poor who follow as a trade what other people pursue as a pastime. Fishermen have been so since the time of Theocritus (Idyllium xxi.). A poacher is everywhere a very poor man in Great Britain. In countries where the rigour of the law suffers no poachers, the licensed hunter is not in a much better condition. The natural taste for those employments makes more people follow them than can live comfortably by them, and the produce of their labour, in proportion to its quantity, comes always too cheap to market to afford anything but the most scanty subsistence to the labourers.

Disagreeableness and disgrace affect the profits of stock in the same manner as the wages of labour. The keeper of an inn, never master of his own house, and exposed to the brutality of every drunkard, exercises neither a very agreeable nor a very creditable business. There is scarce any trade in which a small stock yields so great a profit.

II. The wages of labour vary with the easiness and cheapness, or the difficulty and expense of learning the business.

When an expensive machine is erected, the extraordinary work to be performed by it before it is worn out, it must be expected, will replace the capital laid out upon it, with at least the ordinary profits. A man educated at the expense of much labour and time to any of those employments which require extraordinary dexterity and skill, may be compared to one of those expensive machines. The work which he learns to perform, it must be expected, over and above the usual wages of common labour, will replace to him the whole expense of his education, with at least the ordinary profits of an equally valuable capital. It must do this too in a reasonable time, regard being had to the very uncertain duration of human life, in the same manner as to the more certain duration of the machine. The difference between the wages of skilled labour and those of common labour, is founded upon this principle. The policy of Europe considers the labour of all mechanics, artificers, and manufacturers, as skilled labour; and that of all country labourers as common labour. It seems to suppose that of the former to be of a more nice and delicate nature than that of the latter. It is so perhaps in some cases; but in the greater part it is quite otherwise, as I shall endeavour to show by-and-by.

III. The wages of labour in different occupations vary with the constancy or inconstancy of employment.

Employment is much more constant in some trades than in others. In the greater part of manufactures, a journeyman may be pretty sure of employment almost every day in the year that he is able to work. A mason or bricklayer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable, in consequence, to be frequently without any. What he earns, therefore, while he is employed, must not only maintain him when he is idle, but make him some compensation

for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion. Where the computed earnings of the greater part of manufacturers, accordingly, are nearly upon a level with the day wages of common labourers, those of masons and bricklayers are generally from one-half more to double those wages. Where common labourers earn four and five shillings a week, masons and bricklayers frequently earn seven and eight; where the former earn six, the latter often earn nine and ten; and where the former earn nine or ten, as in London, the latter commonly earn fifteen and eighteen. No species of skilled labour, however, seems more easy to learn than that of masons and bricklayers. Chairmen in London, during the summer season, are said sometimes to be employed as bricklayers. The high wages of those workmen, therefore, are not so much the recompense of their skill, as the compensation for the inconstancy of their employment.

A house carpenter seems to exercise rather a nicer and more ingenious trade than a mason. In most places, however, for it is not universally so, his day-wages are somewhat lower. His employment, though it depends much, does not depend so entirely upon the occasional calls of his customers; and it is not so liable to be interrupted by the weather. When the trades which generally afford constant employment happen in a particular place not to do so, the wages of the workmen always rise a good deal above their ordinary proportion to those of common labour. In London almost all journeymen artificers are liable to be called upon and dismissed by their masters from day to day, and from week to week, in the same manner as day-labourers in other places. The lowest order of artificers, journeymen tailors, accordingly, earn there half-a-crown a day, though eighteenpence may be reckoned the wages of common labour. In small towns and country villages, the wages of journeymen tailors frequently scarce equal those of common labour; but in London they are often many weeks without employment, particularly during the summer.

When the inconstancy of employment is combined with the hardship, disagreeableness, and dirtiness of the work, it sometimes raises the wages of the most common labour above those of the most skilful artificers. A collier working by the piece is supposed, at Newcastle, to earn commonly about double, and in many parts of Scotland about three times, the wages of common labour. His high wages arise altogether from the hardship, disagreeableness, and dirtiness of his work. His employment may, upon most occasions, be as constant as he pleases. The coal-heavers in London exercise a trade which in hardship, dirtiness, and disagreeableness, almost equals that of colliers; and from the unavoidable irregularity in the arrivals of coal-ships, the employment of the greater part of them is necessarily very inconstant. If colliers, therefore, commonly earn double and triple the wages of common labour, it ought not to seem unreasonable that coal-heavers should sometimes earn four and five times those wages. In the inquiry made into their condition a few years ago, it was found that at the rate at which they were then paid, they could earn from six to ten shillings a day. Six shillings are about four times the wages of common labour in London, and in every particular trade the lowest common earnings may always be considered as those of the far greater number. How extravagant soever those earnings may appear, if they were more than sufficient to compensate all the disagreeable circumstances of the business, there would soon be so great a number of competitors as in a trade which has no exclusive privilege, would quickly reduce them to a lower rate. The constancy or inconstancy of employment cannot affect the ordinary profits of stock in any trade. Whether the stock is or is not constantly employed depends, not upon the trade, but the trader.

IV. The wages of labour vary according to the small or great trust which must be reposed in the workmen.

The wages of goldsmiths and jewellers are everywhere superior to those of many other workmen, not only of equal, but of much superior ingenuity, on account of the precious

materials with which they are necessarily entrusted. We trust our health to the physician; our fortune, and sometimes our life and reputation, to the lawyer and attorney. Such confidence could not safely be reposed in people of a very mean or low condition. Their reward must be such, therefore, as may give them that rank in the society which so important a trust requires. The long time and the great expense which must be laid out in their education, when combined with this circumstance, will necessarily enhance still further the price of their labour. When a person employs only his own stock in trade, there is no trust; and the credit which he may get from other people depends, not upon the nature of his trade, but upon their opinion of his fortune, probity, and prudence. The different rates of profit, therefore, in the different branches of trade, cannot arise from the different degrees of trust reposed in the traders.

V. The wages of labour in different employments vary according to the probability or improbability of success in them.

The probability that any particular person shall ever be qualified for the employment to which he is educated, is very different in different occupations. In the greater part of mechanic trades success is almost certain, but very uncertain in the liberal professions. Put your son apprentice to a shoemaker, there is little doubt of his learning to make a pair of shoes: but send him to study the law, it is at least twenty to one if ever he makes such a proficiency as will enable him to live by the business. In a perfectly fair lottery, those who draw the prizes ought to gain all that is lost by those who draw the blanks. In a profession where twenty fail for one that succeeds, that one ought to gain all that should have been gained by the unsuccessful twenty. The counsellor-at-law who, perhaps, at nearly forty years of age, begins to make something by his profession, ought to receive the retribution, not only of his own so tedious and expensive education, but of that of more than twenty others who are never likely to make anything by it.

How extravagant soever the fees of counsellors-at-law may sometimes appear, their real retribution is never equal to this. Compute in any particular place, what is likely to be annually gained, and what is likely to be annually spent, by all the different workmen in any common trade, such as that of shoemakers or weavers, and you will find that the former sum will generally exceed the latter. But make the same computation with regard to all the counsellors and students at law, in all the different inns of court, and you will find that their annual gains bear but a very small proportion to their annual expense, even though you rate the former as high, and the latter as low, as can well be done. The lottery of the law is very far from being a perfectly fair lottery; and that, as well as many other liberal and honourable professions, is, in point of pecuniary gain, under-recompensed. Those professions keep their level, however, with other occupations, and, notwithstanding these discouragements, all the most generous and liberal spirits are eager to crowd into them. Two different causes contribute to recommend them. First, the desire of the reputation which attends upon superior excellence in any of them; and secondly, the natural confidence which every man has more or less, not only in his own abilities, but in his own good fortune.

To excel in any profession in which but few arrive at mediocrity is the most decisive mark of what is called genius or superior talents. The public admiration which attends upon such distinguished abilities, make always a part of their reward; a greater or smaller in proportion as it is higher or lower in degree. It makes a considerable part of that reward in the profession of physic; a still greater perhaps in that of law; in poetry and philosophy it makes almost the whole.

There are some very agreeable and beautiful talents of which the possession commands a certain sort of admiration; but of which the exercise for the sake of gain is considered, whether from reason or prejudice, as a sort of public prostitution. The pecuniary recompense, therefore,

of those who exercise them in this manner must be sufficient not only to pay for the time, labour, and expense of acquiring the talents, but for the discredit which attends the employment of them as the means of subsistence. The exorbitant rewards of players, opera-singers, opera-dancers, etc., are founded upon those two principles; the rarity and beauty of the talents, and the discredit of employing them in this manner. It seems absurd at first sight that we should despise their persons, and yet reward their talents with the most profuse liberality. While we do the one, however, we must of necessity do the other. Should the public opinion or prejudice ever alter with regard to such occupations, their pecuniary recompense would quickly diminish. More people would apply to them, and the competition would quickly reduce the price of their labour. Such talents, though far from being common, are by no means so rare as is imagined. Many people possess them in great perfection, who disdain to make this use of them; and many more are capable of acquiring them, if anything could be made honourably by them.

The over-weening conceit which the greater part of men have of their own abilities, is an ancient evil remarked by the philosophers and moralists of all ages. Their absurd presumption in their own good fortune has been less taken notice of. It is, however, if possible still more universal. There is no man living who, when in tolerable health and spirits, has not some share of it. The chance of gain is by every man more or less over-valued, and the chance of loss is by most men under-valued, and by scarce any man, who is in tolerable health and spirits, valued more than it is worth.

The proportion between the different rates both of wages and profit in the different employments of labour and stock, seems not to be much affected, as has already been observed, by the riches or poverty, the advancing, stationary, or declining state of the society. Such revolutions in the public welfare, though they affect the general rates both of wages and profit, must in the end affect them equally in

all different employments. The proportions between them, therefore, remain the same, and cannot well be altered, at least for any considerable time, by any such revolutions.

RICARDO.

Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution.

The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive in wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase. The natural price of labour, therefore, depends on the price of the food, necessaries, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessaries, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall.

With the progress of society the natural price of labour has always a tendency to rise, because one of the principal commodities by which its natural price is regulated has a tendency to become dearer, from the greater difficulty of producing it. As, however, the improvements in agriculture, the discovery of new markets, whence provisions may be imported, may for a time counteract the tendency to a rise in the price of necessaries, and may even occasion their natural price to fall, so will the same causes produce the correspondent effects on the natural price of labour.

The natural price of all commodities, excepting raw produce and labour, has a tendency to fall, in the progress of wealth and population; for though, on one hand, they are

enhanced in real value, from the rise in the natural price of the raw material of which they are made, this is more than counterbalanced by the improvements in machinery, by the better division and distribution of labour, and by the increasing skill, both in science and art, of the producers.

The market price of labour is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labour is dear when it is scarce, and cheap when it is plentiful. However much the market price of labour may deviate from its natural price, it has, like commodities, a tendency to conform to it.

It is when the market price of labour exceeds its natural price, that the condition of the labourer is flourishing and happy, that he has it in his power to command a greater proportion of the necessaries and enjoyments of life, and therefore to rear a healthy and numerous family. When, however, by the encouragement which high wages give to the increase of population, the number of labourers is increased, wages again fall to their natural price, and indeed from a reaction sometimes fall below it.

When the market price of labour is below its natural price, the condition of the labourers is most wretched: then poverty deprives them of those comforts which custom renders absolute necessaries. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford.

Notwithstanding the tendency of wages to conform to their natural rate, their market rate may, in an improving society, for an indefinite period, be constantly above it; for no sooner may the impulse, which an increased capital gives to a new demand for labour, be obeyed, than another increase of capital may produce the same effect; and thus, if the increase of capital be gradual and constant, the demand for labour may give a continued stimulus to an increase of people.

Capital is that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, etc., necessary to give effect to labour.

Capital may increase in quantity at the same time that its value rises. An addition may be made to the food and clothing of a country, at the same time that more labour may be required to produce the additional quantity than before; in that case not only the quantity, but the value of capital will rise.

Or capital may increase without its value increasing, and even while its value is actually diminishing; not only may an addition be made to the food and clothing of a country, but the addition may be made by the aid of machinery, without any increase, and even with an absolute diminution in the proportional quantity of labour required to produce them. The quantity of capital may increase, while neither the whole together, nor any part of it singly, will have a greater value than before, but may actually have a less.

In the first case, the natural price of labour, which always depends on the price of food, clothing, and other necessaries, will rise; in the second, it will remain stationary, or fall; but in both cases the market rate of wages will rise, for in proportion to the increase of capital will be the increase in the demand for labour; in proportion to the work to be done will be the demand for those who are to do it.

In both cases, too, the market price of labour will rise above its natural price; and in both cases it will have a tendency to conform to its natural price, but in the first case this agreement will be most speedily effected. The situation of the labourer will be improved, but not much improved; for the increased price of food and necessaries will absorb a large portion of his increased wages; consequently a small supply of labour, or a trifling increase in the population, will soon reduce the market price to the then increased natural price of labour.

In the second case, the condition of the labourer will be very greatly improved; he will receive increased money wages, without having to pay any increased price, and perhaps even a diminished price for the commodities which he and his family consume; and it will not be till after a great addition has been made to the population, that the market price of labour will again sink to its then low and reduced natural price.

Thus, then, with every improvement of society, with every increase in its capital, the market wages of labour will rise; but the permanence of their rise will depend on the question, whether the natural price of labour has also risen; and this again will depend on the rise in the natural price of those necessaries on which the wages of labour are expended.

It is not to be understood that the natural price of labour, estimated even in food and necessaries, is absolutely fixed and constant. It varies at different times in the same country, and very materially differs in different countries. It essentially depends on the habits and customs of the people. An English labourer would consider his wages under their natural rate, and too scanty to support a family, if they enabled him to purchase no other food than potatoes, and to live in no better habitation than a mud cabin; yet these moderate demands of nature are often deemed sufficient in countries where "man's life is cheap," and his wants easily satisfied. Many of the conveniences now enjoyed in an English cottage would have been thought luxuries at an earlier period of our history.

From manufactured commodities always falling, and raw produce always rising, with the progress of society, such a disproportion in their relative value is at length created, that in rich countries a labourer, by the sacrifice of a very small quantity only of his food, is able to provide liberally for all his other wants.

Independently of the variations in the value of money, which necessarily affect wages, but which we have here supposed to have no operation, as we have considered

money to be uniformly of the same value, wages are subject to a rise or fall from two causes:

1st. The supply and demand of labourers.

2ndly. The price of the commodities on which the wages of labour are expended.

In different stages of society, the accumulation of capital, or of the means of employing labour, is more or less rapid, and must in all cases depend on the productive powers of labour. The productive powers of labour are generally greatest when there is an abundance of fertile land: at such periods accumulation is often so rapid, that labourers cannot be supplied with the same rapidity as capital.

It has been calculated, that under favourable circumstances population may be doubled in twenty-five years; but under the same favourable circumstances, the whole capital of a country might possibly be doubled in a shorter period. In that case, wages during the whole period would have a tendency to rise, because the demand for labour would increase still faster than the supply.

In new settlements, where the arts and knowledge of countries far advanced in refinement are introduced, it is probable that capital has a tendency to increase faster than mankind: and if the deficiency of labourers were not supplied by more populous countries, this tendency would very much raise the price of labour. In proportion as these countries become populous, and land of a worse quality is taken into cultivation, the tendency to an increase of capital diminishes; for the surplus produce remaining, after satisfying the wants of the existing population, must necessarily be in proportion to the facility of production—viz., to the smaller number of persons employed in production. Although, then, it is probable, that under the most favourable circumstances, the power of production is still greater than that of population, it will not long continue so; for, the land being limited in quantity, and differing in quality, with every increased portion of capital employed on it there will be a decreased rate of production, whilst the power of population continues always the same.

In the natural advance of society, the wages of labour will have a tendency to fall, as far as they are regulated by supply and demand; for the supply of labourers will continue to increase at the same rate, whilst the demand for them will increase at a slower rate. If, for instance, wages were regulated by a yearly increase of capital, at the rate of 2 per cent., they would fall when it accumulated only at the rate of $1\frac{1}{2}$ per cent. They would fall still lower when it increased only at the rate of 1, or $\frac{1}{2}$ per cent., and would continue to do so until the capital became stationary, when wages also would become stationary, and be only sufficient to keep up the numbers of the actual population. I say that, under these circumstances, wages would fall, if they were regulated only by the supply and demand of labourers, but we must not forget, that wages are also regulated by the prices of the commodities on which they are expended.

As population increases, these necessaries will be constantly rising in price, because more labour will be necessary to produce them. If, then, the money wages of labour should fall, whilst every commodity on which the wages of labour were expended rose, the labourer would be doubly affected, and would be soon totally deprived of subsistence. Instead, therefore, of the money wages of labour falling, they would rise; but they would not rise sufficiently to enable the labourer to purchase as many comforts and necessaries as he did before the rise in the price of those commodities. If his annual wages were before £24, or six quarters of corn when the price was £4 per quarter, he would probably receive only the value of five quarters when corn rose to £5 per quarter. But five quarters would cost £25; he would therefore receive an addition in his money wages, though with that addition he would be unable to furnish himself with the same quantity of corn and other commodities which he had before consumed in his family.

Notwithstanding, then, that the labourer would be really worse paid, yet this increase in his wages would necessarily diminish the profits of the manufacturer; for his goods

would sell at no higher price, and yet the expense of producing them would be increased. This, however, will be considered in our examination into the principles which regulate profits.

It appears, then, that the same cause which raises rent, namely, the increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, will also raise wages; and therefore if money be of an unvarying value, both rent and wages will have a tendency to rise with the progress of wealth and population.

But there is this essential difference between the rise of rent and the rise of wages. The rise in the money value of rent is accompanied by an increased share of the produce; not only is the landlord's money rent greater, but his corn rent also; he will have more corn, and each defined measure of that corn will exchange for a greater quantity of all other goods which have not been raised in value. The fate of the labourer will be less happy; he will receive more money wages, it is true, but his corn wages will be reduced; and not only his command of corn, but his general condition will be deteriorated, by his finding it more difficult to maintain the market rate of wages above their natural rate. While the price of corn rises 10 per cent., wages will always rise less than 10 per cent., but rent will always rise more; the condition of the labourer will generally decline, and that of the landlord will always be improved.

When wheat was at £4 per quarter, suppose the labourer's wages to be £24 per annum, or the value of six quarters of wheat, and suppose half his wages to be expended on wheat, and the other half, or £12, on other things. He would receive

£24 14s.	when wheat was at	£4 4s. 8d.	or the value of 5.83 qrs.
£25 10s.		£4 10s.	5.66 qrs.
£26 8s.		£4 16s.	5.50 qrs.
£27 8s. 6d.		£5 2s. 10d.	5.33 qrs.

He would receive these wages to enable him to live just

as well, and no better, than before; for when corn was at £4 per quarter, he would expend for three quarters of corn,

at £4 per quarter	£12
and on other things	£12
	£24

When wheat was £4 4s. 8d., three quarters, which he and his family consumed, would cost him . . £12 14s.
Other things not altered in price . . . £12 os.

£24 14s.

When at £4 10s., three quarters of wheat would cost . . . . . £13 10s.
and other things . . . . . £12 os.

£25 10s.

When at £4 16s., three quarters of wheat . £14 8s.
Other things . . . . . £12 os.

£26 8s.

When at £5 2s. 10d., three quarters of wheat would cost . . . . . £15 8s. 6d.
Other things . . . . . £12 os. od.

£27 8s. 6d.

In proportion as corn became dear, he would receive less corn wages, but his money wages would always increase, whilst his enjoyments, on the above supposition, would be precisely the same. But as other commodities would be raised in price in proportion as raw produce entered into their composition, he would have more to pay for some of them. Although his tea, sugar, soap, candles, and house rent, would probably be no dearer, he would pay more for his bacon, cheese, butter, linen, shoes, and cloth; and therefore, even with the above increase of wages, his situation would be comparatively worse. But it may be

said that I have been considering the effect of wages on price, on the supposition that gold, or the metal from which money is made, is the produce of the country in which wages varied; and that the consequences which I have deduced agree little with the actual state of things, because gold is a metal of foreign production. The circumstance, however, of gold being a foreign production, will not invalidate the truth of the argument, because it may be shown that, whether it were found at home, or were imported from abroad, the effects ultimately and, indeed, immediately, would be the same.

When wages rise, it is generally because the increase of wealth and capital have occasioned a new demand for labour, which will infallibly be attended with an increased production of commodities. To circulate these additional commodities, even at the same price as before, more money is required, more of this foreign commodity from which money is made, and which can only be obtained by importation. Whenever a commodity is required in greater abundance than before, its relative value rises comparatively with those commodities with which its purchase is made. If more hats were wanted, their price would rise, and more gold would be given for them. If more gold were required, gold would rise, and hats would fall in price, as a greater quantity of hats and of all other things would then be necessary to purchase the same quantity of gold. But in the case supposed, to say that commodities will rise, because wages rise, is to affirm a positive contradiction; for we first say that gold will rise in relative value in consequence of demand, and secondly, that it will fall in relative value because prices will rise, two effects which are totally incompatible with each other. To say that commodities are raised in price, is the same thing as to say that money is lowered in relative value; for it is by commodities that the relative value of gold is estimated. If, then, all commodities rose in price, gold could not come from abroad to purchase those dear commodities, but it would go from home to be employed with advantage in purchasing the

comparatively cheaper foreign commodities. It appears, then, that the rise of wages will not raise the price of commodities, whether the metal from which money is made be produced at home or in a foreign country. All commodities cannot rise at the same time without an addition to the quantity of money. This addition could not be obtained at home, as we have already shown; nor could it be imported from abroad. To purchase any additional quantity of gold from abroad, commodities at home must be cheap, not dear. The importation of gold, and a rise in the price of all home-made commodities with which gold is purchased or paid for, are effects absolutely incompatible. The extensive use of paper money does not alter this question, for paper money conforms, or ought to conform, to the value of gold, and therefore its value is influenced by such causes only as influence the value of that metal.

These then are the laws by which wages are regulated, and by which the happiness of far the greatest part of every community is governed. Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

CHAPTER VI.

PROFITS.

J. S. MILL.

To popular apprehension it seems as if the profits of business depended upon prices. A producer or dealer seems to obtain his profits by selling his commodity for more than it cost him. Profit altogether, people are apt to think, is a consequence of purchase and sale. It is only (they suppose) because there are purchasers for a commodity, that the producer of it is able to make any profit. Demand—customers—a market for the commodity, are the cause of the gains of capitalists. It is by the sale of their goods that they replace their capital, and add to its amount.

This, however, is looking only at the outside surface of the economical machinery of society. In no case, we find, is the mere money which passes from one person to another, the fundamental matter in any economical phenomenon. If we look more narrowly into the operations of the producer, we shall perceive that the money he obtains for his commodity is not the cause of his having a profit, but only the mode in which his profit is paid to him.

The cause of profit is, that labour produces more than is required for its support. The reason why agricultural capital yields a profit, is because human beings can grow more food than is necessary to feed them while it is being grown, including the time occupied in constructing the tools, and making all other needful preparations; from which it is a consequence, that if a capitalist undertakes to feed the

labourers on condition of receiving the produce, he has some of it remaining for himself after replacing his advances. To vary the form of the theorem: the reason why capital yields a profit, is because food, clothing, materials, and tools, last longer than the time which was required to produce them; so that if a capitalist supplies a party of labourers with these things, on condition of receiving all they produce, they will, in addition to reproducing their own necessaries and instruments, have a portion of their time remaining to work for the capitalist. We thus see that profit arises, not from the incident of exchange, but from the productive power of labour; and the general profit of the country is always what the productive power of labour makes it, whether any exchange takes place or not. If there were no division of employments, there would be no buying or selling, but there would still be profit. If the labourers of the country collectively produce twenty per cent. more than their wages, profits will be twenty per cent., whatever prices may or may not be. The accidents of price may for a time make one set of producers get more than twenty per cent., and another less, the one commodity being rated above its natural value in relation to other commodities, and the other below, until prices have again adjusted themselves; but there will always be just twenty per cent. divided among them all.

I proceed, in expansion of the considerations thus briefly indicated, to exhibit more minutely the mode in which the rate of profit is determined.

I assume, throughout, the state of things which, where the labourers and capitalists are separate classes, prevails, with few exceptions, universally; namely, that the capitalist advances the whole expenses, including the entire remuneration of the labourer. That he should do so is not a matter of inherent necessity; the labourer might wait until the production is complete, for all that part of his wages which exceeds mere necessaries; and even for the whole, if he has funds in hand sufficient for his temporary support. But in the latter case, the labourer is to that extent really a capitalist, investing capital in the concern, by supplying a portion

of the funds necessary for carrying it on; and even in the former case he may be looked upon in the same light, since, contributing his labour at less than the market price, he may be regarded as lending the difference to his employer, and receiving it back with interest (on whatever principle computed) from the proceeds of the enterprise.

The capitalist, then, may be assumed to make all the advances, and receive all the produce. His profit consists of the excess of the produce above the advances; his *rate* of profit is the ratio which that excess bears to the amount advanced. But what do the advances consist of?

It is, for the present, necessary to suppose that the capitalist does not pay any rent; has not to purchase the use of any appropriated natural agent. This indeed is scarcely ever the exact truth. The agricultural capitalist, except when he is the owner of the soil he cultivates, always, or almost always, pays rent: and even in manufactures (not to mention ground-rent), the materials of the manufacture have generally paid rent, in some stage of their production. The nature of rent, however, we have not yet taken into consideration; and it will hereafter appear, that no practical error, on the question we are now examining, is produced by disregarding it.

If, then, leaving rent out of the question, we inquire in what it is that the advances of the capitalists, for purposes of production, consists, we shall find that they consist of wages of labour.

A large portion of the expenditure of every capitalist consists in the direct payment of wages. What does not consist of this, is composed of materials and implements, including buildings. But materials and implements are produced by labour; and as our supposed capitalist is not meant to represent a single employment, but to be a type of the productive industry of the whole country, we may suppose that he makes his own tools, and raises his own materials. He does this by means of previous advances, which, again, consist wholly of wages. If we suppose him to buy the materials and tools instead of producing them,

the case is not altered: he then repays to a previous producer the wages which that previous producer has paid. It is true, he repays it to him with a profit; and if he had produced the things himself, he himself must have had that profit on this part of his outlay, as well as on every other part. The fact, however, remains, that in the whole process of production, beginning with the materials and tools, and ending with the finished product, all the advances have consisted of nothing but wages; except that certain of the capitalists concerned have, for the sake of general convenience, had their share of profit paid to them before the operation was completed. Whatever, of the ultimate product, is not profit, is repayment of wages.

It thus appears that the two elements on which, and which alone, the gains of the capitalists depend, are, first, the magnitude of the produce, in other words, the productive power of labour; and secondly, the proportion of that produce obtained by the labourers themselves; the ratio which the remuneration of the labourers bears to the amount they produce. These two things form the data for determining the gross amount divided as profit among all the capitalists of the country; but the *rate* of profit, the percentage on the capital, depends only on the second of the two elements, the labourers' proportional share, and not on the amount to be shared. If the produce of labour were doubled, and the labourers obtained the same proportional share as before, that is, if their remuneration was also doubled, the capitalists, it is true, would gain twice as much; but as they would also have had to advance twice as much, the rate of their profit would be only the same as before.

We thus arrive at the conclusion of Ricardo and others, that the rate of profits depends on wages; rising as wages fall, and falling as wages rise. In adopting, however, this doctrine, I must insist upon making a most necessary alteration in its wording. Instead of saying that profits depend on wages, let us say (what Ricardo really meant) that they depend on the *cost of labour*.

Wages, and the cost of labour; what labour brings in to the labourer, and what it costs to the capitalist; are ideas quite distinct, and which it is of the utmost importance to keep so. For this purpose it is essential not to designate them, as is almost always done, by the same name. Wages, in public discussions, both oral and printed, being looked upon from the point of view of the payers, much oftener than from that of the receivers, nothing is more common than to say that wages are high or low, meaning only that the cost of labour is high or low. The reverse of this would be oftener the truth: the cost of labour is frequently at its highest where wages are lowest. This may arise from two causes. In the first place, the labour, though cheap, may be inefficient. In no European country are wages so low as they are (or at least were) in Ireland; the remuneration of an agricultural labourer in the west of Ireland not being more than half the wages of even the lowest-paid Englishman, the Dorsetshire labourer. But if, from inferior skill and industry, two days' labour of an Irishman accomplished no more work than an English labourer performed in one, the Irishman's labour cost as much as the Englishman's, though it brought in so much less to himself. The capitalist's profit is determined by the former of these two things, not by the latter. That a difference to this extent really existed in the efficiency of the labour, is proved not only by abundant testimony, but by the fact, that notwithstanding the lowness of wages, profits of capital are not understood to have been higher in Ireland than in England.

The other cause which renders wages and the cost of labour no real criteria of one another, is the varying costliness of the articles which the labourer consumes. If these are cheap, wages, in the sense which is of importance to the labourer, may be high, and yet the cost of labour may be low; if dear, the labourer may be wretchedly off, though his labour may cost much to the capitalist. This last is the condition of a country over-peopled in relation to its land; in which, food being dear, the poorness of the

labourer's real reward does not prevent labour from costing much to the purchaser, and low wages and low profits co-exist. The opposite case is exemplified in the United States of America. The labourer there enjoys a greater abundance of comforts than in any other country of the world, except some of the newest colonies; but, owing to the cheap price at which these comforts can be obtained (combined with the great efficiency of the labour), the cost of labour is at least not higher, nor the rate of profit lower, than in Europe.

The cost of labour, then, is, in the language of mathematics, a function of three variables: the efficiency of labour; the wages of labour (meaning thereby the real reward of the labourer); and the greater or less cost at which the articles composing that real reward can be produced or procured. It is plain that the cost of labour to the capitalist must be influenced by each of these three circumstances, and by no others. These, therefore, are also the circumstances which determine the rate of profit; and it cannot be in any way affected except through one or other of them. If labour generally became more efficient, without being more highly rewarded; if, without its becoming less efficient, its remuneration fell, no increase taking place in the cost of the articles composing that remuneration; or if those articles became less costly, without the labourer's obtaining more of them; in any one of these three cases, profits would rise. If, on the contrary, labour became less efficient (as it might do from diminished bodily vigour in the people, destruction of fixed capital, or deteriorated education); or if the labourer obtained a higher remuneration, without any increased cheapness in the things composing it; or if, without his obtaining more, that which he did obtain became more costly; profits, in all these cases, would suffer a diminution. And there is no other combination of circumstances in which the general rate of profit of a country, in all employments indifferently, can either fall or rise.

M'CULLOCH.

We have seen that the whole produce of the land and labour, of every civilised society, is always divided, in the first instance, into *three*, and not more than *three*, portions;—the *first* of which goes to the labourers, the *second* to the capitalists or proprietors of stock, and the *third* to the landlords: and we have also seen, that the portion of the produce of industry which belongs to the landlords, or the rent of the land, is altogether extrinsic to the cost of production, and that the circumstance of the landlords' consenting to give it up, would not occasion any change in the productiveness of industry, or any reduction in the price of raw produce. Supposing, then, that rent is deducted or set aside, it is obvious that all the *remaining produce* of the land and labour of every country must be primarily divided between the two great classes of labourers and capitalists. And it is further obvious, that if there were no taxes in a country, or if the rate of taxation was invariable, the *proportion* of the whole produce of industry, under deduction of rent, falling to the share of the labourers, could not be increased except by an equivalent reduction in the *proportion* falling to the share of the capitalists, and *vice versa*. Suppose, still better to illustrate this position, that the whole produce of industry in Great Britain is represented by the number 1000: suppose, further, that the landlords got 200 of this sum as rent, and that the remaining 800 is divided, in equal portions, between labourers and capitalists. Under these circumstances, it is quite obvious, that nothing can be added to the proportion of the produce, or to the 400 falling to the labourers, except at the expense of the capitalists; nor to the proportion, or 400 falling to the latter, except at the expense of the former.

Whether the 800 were increased to 1600, or reduced to 400, so long as those between whom it must be divided receive the same *proportional* shares, their relative condition must continue the same. And hence the propriety

of the distinction between *proportional* and *real* wages, or wages estimated in money or in quantities of produce. If the productiveness of industry were to diminish, proportional wages might rise, notwithstanding that real wages, or the absolute amount of the produce of industry falling to the share of the labourer, might be diminished: and if, on the other hand, the productiveness of industry were to increase, proportional wages might be diminished, while real wages might, at the same time, be increased.

It is undeniably certain, therefore, that, wherever taxation is either unknown or constant, the whole produce of industry, under deduction of rent, is divided between capitalists and labourers; and that the proportion of that produce falling to either party, varies inversely to the proportion falling to the other—that is, the proportion falling to the capitalists is increased when that falling to the labourers is diminished, and diminished when it is increased.

But the *profit* accruing to the capitalists is different and totally distinct from the proportion of the produce of industry falling to their share. Profits consist of the excess of the commodities produced by the expenditure of a given quantity of capital over that quantity of capital; and are always measured in aliquot parts of the capital employed in production. Suppose that an individual employs a capital of 1000 quarters of wheat in the cultivation of a farm—700 quarters being laid out in the payment of wages, and 300 in seed and other out-goings: Suppose now that the return to this capital is 1200 quarters: Under these circumstances, the proportion of the produce of industry, falling to the share of the labourers, will be to that falling to the share of the capitalist as 7 to 5. But of the 500 quarters falling, in the first instance, to the capitalist, 200 only are profits, 300 being required to replace the quantity he had expended in seed, etc. In this case, therefore, the *rate* of profit would be said to be 20 per cent.;—meaning, that the quantity of produce belonging to the capitalist, after all that has been laid out in its production is

fully replaced, amounts to 20 per cent. of the capital he employed.

It is very commonly supposed that profits depend on *exchanges;* but this is an error. The bootmaker, for example, who sells boots at 50s. which only cost him 40s. of outlay, does not make his 10s. of profit at the expense of his customers. He produces, in a given time, a quantity of boots equivalent to, or worth in silver 50s., while the various expenses to which he is necessarily put in the manufacture of these boots only amount, when rated in the same medium, to 40. But the very same thing will be taking place among his customers, they will all be making the same rate of profit in their respective businesses;—that is, they will be producing quantities equal to 50, by an outlay of 40; and, consequently, in exchanging silver for boots, the one party gains nothing at the expense of the other. Profit is in every case the result of more being produced in a given period than is consumed in that period. And the advantage that is found in exchanging one commodity for another consists entirely in its enabling labour to be divided, and commodities to be produced, in the best and most expeditious manner.

DE QUINCEY.

Price, rent, and wages having now been developed, we may say, with respect to the law of profits, not so properly that it is deduced from these three principles by Ricardo as that it deduces itself. Let me not be thought, in saying *that*, to mean any disparagement of Ricardo's services. Greater cannot be imagined. He it was who first made it possible to deduce wages from rent, and therefore to deduce profits from wages. He had so disembarrassed the ground of all perplexities by the time he reached this question of profits that the true theory rather flowed spontaneously from the conditions, as they had been now explained, than called for any effort of inference. But then the very necessity and inevitableness of this inference, the very possibility of dis-

pensing with further discoveries, were due exclusively to Ricardo's previous simplifications. Only by having merited so much in former stages could he have made it possible, even for himself, to merit so little in this.

In one brief *formula*, it might be said of profits that *they are the leavings of wages:* so much will the profit be upon any act of production, whether agricultural or manufacturing, as the wages upon that act permit to be left behind.

But left behind from what? From the price. The price, even of landed produce, splits always into wages and profits; and what the price is predetermines the *joint* amount for wages and profits. If the price is 10s., then by this principle, it is asserted—that wages and profits, taken as a whole, cannot exceed 10s. (No rise in wages could increase this sum of 10s.) But do not the wages and profits as a whole, themselves, on the contrary, predetermine the price? No; that is the old superannuated doctrine. But the new economy has shown that all price is governed by proportional quantity of the producing labour, and by that only. Being itself once settled, then, *ipso facto*, price settles the fund out of which both wages and profits must draw their separate dividends. Call the price x: that sum, that x, makes up the joint values of wages and profits. Taken together, the two functions of wages and profits will always compose x; cannot be less, cannot be more.

But, if *that* is true, then it follows that wages and profits vary inversely: whatever the one loses the other gains; and the gain of either can only be through the loss of the other. Neither of the two can gain *absolutely* or irrespectively of the other: wages being eight shillings and profits two, then it is possible that profits might rise to three, but only by wages previously falling to seven. Any other rise in profits, such as should leave wages practically undiminished, could be only an apparent rise through some depreciation in the currency; and that depreciation, changing any one thing nominally, must change all other things: affecting all apparently, really it would affect none.

When the question arises—How are profits kept down to

the average level, or, in other words, suppose that, by any combination amongst capitalists, it were determined arbitrarily to raise profits, where lies the true natural counteraction to such an attempt?—the common answer is, in competition. It is rashly assumed that all such injurious attempts are defeated by the instantaneous introduction of more capital, under rival interests, into the trade or manufacture. But this is not always possible. Capitalists do not so easily enter a trade or withdraw from it. In a country so exquisitely organised as England, it is true that capital moves with velocity where the capitalist cannot move; and of this we have a luminous explanation in Ricardo.

Ricardo, who, as a stockbroker, stood in the very centre of the vast money machinery accumulated in London, had peculiar advantages for observing and for investigating the play of this machinery. If our human vision were fitted for detecting agencies so impalpable, and if a station of view could be had, we might sometimes behold vast arches of electric matter continually passing and repassing between either pole and the equatorial regions. Accordingly as the equilibrium were disturbed suddenly or redressed, would be the phenomena of tropical hurricanes, or of auroral lights. Somewhat in the same silent arches of continual transition, ebbing and flowing like tides, do the re-agencies of the capital accumulated in London modify, without sound or echo, much commerce in all parts of the kingdom. Faithful to the monetary symptoms, and the fluctuations this way or that eternally perceptible in the condition of every trade, the great moneyed capitalist, standing at the centre of this enormous web, throws over his arch of capital or withdraws it, with the precision of a fireman directing columns of water from an engine upon the remotest quarter of a conflagration. It is not, as Ricardo almost *professionally* explains to us, by looking out for new men qualified to enter an aspiring trade, or by withdrawing some of the old men from a decaying trade, that the equilibrium is recovered. Such operations are difficult, dilatory, often personally ruinous,

and disproportionately noisy to the public ear in the process of execution. But the true operation goes on as silently as the growth of light. The moneyed man stands equidistantly related to many different staple interests—the silk trade, the cotton trade, the iron trade, the timber and grain trade. Rarely does he act upon any one of them by direct interpolation of new firms, or direct withdrawals of old ones. An effect of this extent is generally as much beyond his power as beyond his interest.

Not a man has been shifted from his station; possibly not a man has been intruded; yet power and virtue have been thrown into vast laboratories of trade, like shells into a city. But all has been accomplished in one night by the inaudible agency of the post-office, co-operating with the equally inaudible agencies of capital moving through banks and through national debts, funded or unfunded. Such is the perfection of our civilisation. By the simple pressure of a finger upon the centre of so vast an organisation, a breath of life is hurried along the tubes—a pulse is enlivened or depressed—a circulation is precipitated or checked, without those ponderous processes of change indispensable on the Continent, and which so injuriously disturb the smooth working of general business.

JAMES MILL.

Two instruments are commonly combined in production: Labour and Capital. All capital consists really in commodities. The capital of the farmer is not the money which he may be worth, because that he cannot apply to production. His capital consists in his implements and stock.

As all capital consists in commodities, it follows, of course, that the first capital must have been the result of pure labour. The first commodities could not be made by any commodities existing before them.

The first capital, as has just been seen, being the result of pure labour, bears a value in proportion to that labour.

This capital concurs in production. And it is contended that as soon as capital concurs in production, the value of the commodity produced is determined by the value of the capital. But the value of that capital itself, we have just allowed, is determined by labour. To say, therefore, that the value of a product is determined by the value of the capital, is of no use, when you have to go beyond the value of the capital, and ask what it is by which that value is itself determined. To say that the value of the product is determined by the value of the capital, but the value of the capital is determined by the quantity of labour, is to say that the value of the product is determined by the quantity of labour.

It thus undeniably appears, that not only the value of the first capital, but, by equal necessity, that of the commodities which are produced by the first capital, is determined by quantity of labour. Capital of the second stage must consist in the commodities which are produced by that of the first stage. It must, therefore, be estimated by the quantity of labour. The same reasoning applies to it in every subsequent stage. The value of the first capital was regulated by quantity of labour: the value of that which was produced by the first capital was regulated by the value of the first: that, however, was valued by labour: the last, therefore, is valued by labour; and so on, without end, as often as successive productions may be supposed to be made. But if the value of all capital must be determined by labour, it follows, upon all suppositions, that the value of all commodities must be determined by labour.

Profits are, in reality, the measure of quantity of labour; and the only measure of quantity of labour to which, in the case of capital, we can resort. This can be proved by the most rigid analysis.

If two commodities are produced, a bale of silk, for example, for immediate consumption, and a machine, which is an article of fixed capital; it is certain, that if the bale of silk and the machine were produced by the same quantity of labour, and in the same time, they would exactly exchange

for one another: quantity of labour would clearly be the regulator of their value. But suppose that the owner of the machine, instead of selling it, is disposed to use it, for the sake of the profits which it brings, what is the real character and nature of his action? Instead of receiving the price of his machine all at once, he takes a deferred payment, so much per annum: he receives, in fact, an annuity, in lieu of the capital sum; an annuity, fixed by the competition of the market, and which is therefore an exact equivalent for the capital sum. Whatever the proportion which the capital sum bears to the annuity, whether it be ten years' purchase, or twenty years' purchase, such a proportion is each year's annuity of the original value of the machine. The conclusion, therefore, is incontrovertible: as the exchangeable value of the machine, had it been sold as soon as made, would have been the practical measure of the quantity of labour employed in making it, one-tenth or one-twentieth of that value measures also a tenth or a twentieth of the quantity of labour.

If a piece of machinery, which has cost 100 days' labour, is applied in making a commodity, and is worn out in the making of it; and if 100 days' pure labour are employed in making another commodity; the produce of the machine, and the produce of the labour, supposing no adjustment necessary for difference of time, will exchange against one another. Make now a different supposition: that the machine is an article of fixed capital, and not worn out: 100 days' labour were correctly supposed to be expended by using the machine as in the first case; but 100 days' labour have not been expended by using it as in the second, because the machine is not worn out. Some labour, however, has been expended, because 100 days' labour in a mass has been applied. How much of it shall we say has been expended? We have an exact measure of it in the equivalent which is paid. If the equivalent which was obtained when the machine was worn out, was a measure of the 100 days' labour, whatever proportion of such equivalent is received as a year's use of the machine when

not worn out, must represent a corresponding proportion of the labour expended upon the machine.

In stating that commodities are produced by two instruments, Labour and Capital, of which the last is the result of labour, we, in effect, mean, that commodities are produced by two quantities of labour, differently circumstanced; the one, *immediate* labour, that which is applied at once by the hand of the labourer; the other, *hoarded* labour, that which has been the result of former labour, and either is applied in aid of the immediate labour, or is the subject-matter upon which it is bestowed.

Of these two species of labour, two things are to be observed: first, that they are not always paid according to the same rate—that is, the payment of the one does not rise when that of the other rises, or fall when that of the other falls; and, secondly, that they do not always contribute to the production of all commodities in equal proportions.

If there were any two species of labour, the wages of which did not rise and fall in the same proportion, and which, contributing to the production of all commodities, did not contribute to them all in equal degrees, this circumstance, of their not contributing in equal degrees, would create a difference in exchangeable values, as often as any fluctuation took place in the rate of wages. The case is precisely the same when we consider that it is the two species of labour, called *immediate* and *hoarded*, which are applied in different proportions.

Three cases will conveniently exemplify the different degrees in which labour and capital respectively contribute to production. These are the two extreme cases, and the medium. The first is that of commodities which are produced by immediate labour alone without capital; the second, that of commodities produced, one-half by capital, one-half by immediate labour; the third, that of commodities produced by capital alone without immediate labour. There are perhaps no species of commodities which perfectly coincide with either of the extremes. There

are species, however, which approximate to both; and when the most simple cases are illustrated, as examples, allowance can easily and correctly be made for the differences of the rest.

If two species of labour are employed in the production of commodities; and if, when the payment of the one species of labour rises, that of the other falls; a commodity, in the production of which a greater proportion of the first species of labour is employed, will, upon a rise in the payment of that species of labour, rise in exchangeable value, as compared with a commodity in which less is employed. The degree, however, in which it will rise, will depend upon two circumstances: first, upon the degree in which the payment of the one species of labour falls when the other rises; and, secondly, upon the degree in which the proportion of the labour of the first kind, employed in its production, exceeds the proportion of it which is employed in the production of the other commodity.

The first question, then, is, in what degree, when wages rise, do profits fall? And this is the only general question; for the degree in which the two species of labour combine in the production of different commodities, depends upon the circumstances of each particular case.

If all commodities corresponded with the first of the cases, assumed above as examples, and which we may, for the sake of abbreviation, designate by the terms No. 1, No. 2, and No. 3; in other words, if all commodities were produced wholly by labour; and capital were solely employed in the payment of wages; in that case, just as much as wages of labour rose, profits of stock would fall.

Suppose a capital of £1000 to be thus employed, and profits to be 10 per cent., the value of the commodity would be £1100, for that would replace the capital with its profits. The commodity may be regarded as consisting of 1100 parts, of which 1000 would belong to the labourers, and 100 to the capitalist. Let wages, upon this, be supposed to rise 5 per cent.; in that case, it is evident, that instead of 100 parts of the 1100, the capitalist would receive only 50;

his profits, therefore, instead of 10 would be only 5 per cent. Instead of £1000 he would have to pay £1050 in wages. The commodity would not rise in value to indemnify him, because we have supposed that all commodities are in the same situation; it would, therefore, be of the value of £1100, as before, of which £50 alone would remain for himself.

If all commodities corresponded with the case No. 2, profits would fall only half as much as wages rose. If we suppose that £1000 were paid in wages, and £1000 employed in fixed capital; that profits, as before, were 10 per cent., and this the whole expenditure; the value of the commodity would be £1200, because that is the sum which would replace the capital expended and pay the profits of the whole. In this case the commodity might be considered as divided into 1200 parts, of which 200 would belong to the capitalist. If wages rose 5 per cent., and instead of £1000 as wages he paid £1050, he would still retain £150 as profits; in other words, he would sustain a reduction of only $2\frac{1}{2}$ per cent.

The case would be precisely the same, if we supposed the £1000 of capital, which is not employed in the payment of wages, to be employed, in any proportion, in the shape of circulating capital consumed in the course of the productive process, and requiring to be replaced. Thus, while £1000 were employed in the payment of wages, £500 might be employed as fixed capital in durable machinery, £500 in raw material, and other expenses. If this were the state of the expenditure, the value of the article would be £1700; being the amount of the capital to be replaced, and 10 per cent. profits upon the whole. Of these 1700 parts, 1000 would be the share of the labourers, though paid in advance, and 700 the share of the capitalist, 200 being profits. If, now, wages were to rise 5 per cent., 1050 of the above 1700 parts would be the share of the labourers, and 650 only would remain to the capitalist, of which, after replacing his £500 of circulating capital, 150 would remain as profits; a reduction of $2\frac{1}{2}$ per cent. as before.

If all commodities corresponded with the third case, as no wages would be paid, profits could not be affected by the rise of them: and it is obvious, that, in proportion as commodities may be supposed to approach that extreme, profits would be less and less affected by such a rise.

If we suppose, what is most probable, that, in the actual state of things, as many cases are on the one side of the medium as on the other, the result would be, in consequence of the mutual compensations that would take place, that profits would be reduced exactly half as much as wages rose. The steps may be traced as follows:—When wages rise, and profits fall, it is evident that all commodities, made with a less proportion of labour to capital, will fall in value, as compared with those which are made with a greater. Thus, if No. 1 is taken as the standard, that in which commodities are produced wholly by labour; all commodities belonging to that case will be said to remain of the same value; all belonging to any of the other cases will be said to fall in value. If No. 2 is taken as the standard, all commodities appertaining to that case will be said to remain of the same value; all belonging to any case nearer the first extreme will be said to rise in value, all to any nearer the last extreme, to fall.

Those capitalists, who produce articles of case No. 1, have sustained an additional cost of 5 per cent.; but they exchange their commodity against other commodities. If they exchange them against those of case No. 2, where the capitalists have sustained an additional cost of only $2\frac{1}{2}$ per cent., they will receive $2\frac{1}{2}$ per cent. additional quantity. Thus, in obtaining goods, produced under the circumstances of case No. 2, they obtain a certain degree of compensation, and sustain, by the rise of wages, a disadvantage of only $2\frac{1}{2}$ per cent. In this exchange, however, the result, with respect to the capitalists who produce goods under the circumstances of case No. 2, is reversed. They have already sustained a disadvantage of $2\frac{1}{2}$ per cent., in the production of their goods, and are made to sustain another disadvantage of $2\frac{1}{2}$

per cent. in obtaining, by exchange, the goods produced under the circumstances of case No. 1.

The result, then, upon the whole, is, that all producers, who possess themselves, either by production or exchange, of goods produced under the circumstances of case No. 2, sustain a disadvantage of 2½ per cent.; those who possess themselves of goods in cases approaching the first extreme, sustain a greater; those in cases approaching the last, a less disadvantage: that, if the cases on the one side are equal to those on the other, a loss of 2½ per cent. is sustained upon the whole; that this, accordingly, is the extent to which, in practice, it may be supposed that profits are reduced.

From these elements it is easy to compute the effect of a rise of wages upon price. All commodities are compared with money, or the precious metals. If money be supposed to correspond with case No. 2, or to be produced, which is probably not far from the fact, by equal proportions of labour and capital, then all commodities produced under these medium circumstances are not altered in price by a rise of wages: those commodities which approach nearer the first extreme, or admit a greater proportion of labour than capital in their formation, rise in price: those which approach the second—that is, have a greater portion of capital than labour, fall: and, upon the aggregate of commodities, or all taken together, there is neither fall nor rise.

CHAPTER VII.

FOREIGN TRADE.

ADAM SMITH.

THE natural advantages which one country has over another in producing particular commodities are sometimes so great, that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hotbeds, and hot-walls, very good grapes can be raised in Scotland, and very good wine, too, can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and burgundy in Scotland? But if there would be a manifest absurdity in turning towards any employment, thirty times more of the capital and industry of the country than would be necessary to purchase from foreign countries an equal quantity of the commodities wanted, there must be an absurdity, though not altogether so glaring, yet exactly of the same kind, in turning towards any such employment a thirtieth, or even a three-hundredth part more of either. Whether the advantages which one country has over another be natural or acquired, is in this respect of no consequence. As long as the one country has those advantages, and the other wants them, it will always be more advantageous for the latter rather to buy of the former than to make. It is an acquired advantage only which one artificer has over his neighbour who exercises another trade; and yet they both find it more

advantageous to buy of one another, than to make what does not belong to their particular trades.

JAMES MILL.

We have already seen that the benefits derived from the division and skilful distribution of labour, form part of the motives which give rise to the exchange of commodities. Men will not confine themselves to the production of one only of the various articles needed for the well-being of the individual, unless they can, by its means, provide themselves with others.

There is another circumstance which very obviously affords a motive to exchange. Some commodities can be produced only in particular places. Metals, coals, and various other commodities of the greatest importance, are the product of particular spots. The same is the case with certain vegetable productions, to which every soil and climate are not adapted. Some commodities, though not confined to particular spots, can yet be more conveniently and cheaply produced in some places than in others; commodities, for example, which require a great consumption of fuel, in a coal country; commodities, the manufacture of which requires a strong moving power, where a sufficient fall of water can be obtained; commodities which require an extraordinary proportion of manual labour, where provisions, and consequently labour, are cheap.

These are all obvious cases. There is another cause which requires rather more explanation. If two countries can both of them produce two commodities—corn, for example, and cloth—but not both commodities with the same comparative facility, the two countries will find their advantage in confining themselves, each to one of the commodities, and bartering for the other. If one of the countries can produce one of the commodities with peculiar advantages, and the other the other with peculiar advantages, the motive is immediately apparent which should induce each to confine itself to the commodity

which it has peculiar advantages for producing. But the motive may no less decidedly exist, where one of the two countries has facilities superior to the other in producing both commodities.

By superior facilities, we mean the power of producing the same effect with less labour. The conclusion, too, will be the same, whether we suppose the labour to be more or less highly paid. Suppose that Poland, for example, can produce corn and cloth with less labour than England, it will not follow that it may not be the interest of Poland to import one of the commodities from England. If the degree in which it can produce with less labour is the same in both cases; if, for example, the same quantity of corn and cloth which Poland can produce, each with 100 days' labour, requires each 150 days' labour in England, Poland will have no motive to import either from England. But if, while the same quantity of cloth which, in Poland, is produced with 100 days' labour, can be produced in England with 150 days' labour, the facts are such, that the corn which is produced in Poland with 100 days' labour, requires 200 days' labour in England; in that case it will be the interest of Poland to import her cloth from England. The evidence of these propositions may thus be traced.

If the cloth and the corn, each of which required 100 days' labour in Poland, required each 150 days' labour in England, it would follow, that the cloth of 150 days' labour in England, if sent to Poland, would be equal to the cloth of 100 days' labour in Poland: if exchanged for corn, therefore, it would exchange for the corn of only 100 days' labour. But the corn of 100 days' labour in Poland was supposed to be the same quantity with that of 150 days' labour in England. With 150 days' labour in cloth, therefore, England would only get as much corn in Poland as she could raise with 150 days' labour at home; and she would, on importing it, have the cost of carriage besides. In these circumstances no exchange would take place.

If, on the other hand, while the cloth produced with 100 days' labour in Poland was produced with 150 days' labour

in England, the corn which was produced in Poland with 100 days' labour could not be produced in England with less than 200 days' labour; an adequate motive to exchange would immediately arise. With a quantity of cloth which England produced with 150 days' labour, she would be able to purchase as much corn in Poland as was there produced with 100 days' labour; but the quantity, which was there produced with 100 days' labour, would be as great as the quantity produced in England with 200 days' labour. England, therefore, would obtain her corn with less labour, through the medium of her cloth.

Poland would profit in the same manner. A quantity of corn which cost her 100 days' labour, being equal to the quantity produced in England by 200 days' labour, would purchase, in England, the produce of 200 day's labour in any other commodity; for example, in cloth. But the produce of 150 days' labour in England in the article of cloth, is equal to the produce of 100 days' labour in Poland. If, with the produce of 100 days' labour she can purchase, not the produce of 150, but the produce of 200, she gains to the amount of 50 days' labour; in other words, a third.

To produce exchange, there must be two countries, and two commodities.

When both countries can produce both commodities, it is not greater absolute but greater relative, facility that induces one of them to confine itself to the production of one of the commodities, and to import the other.

When a country can either import a commodity, or produce it at home, it compares the cost of producing at home with the cost of procuring from abroad; if the latter cost is less than the first, it imports.

The cost at which a country can import from abroad depends, not upon the cost at which the foreign country produces the commodity, but upon what the commodity costs which it sends in exchange, compared with the cost which it must be at to produce the commodity in question, if it did not import it.

If a quarter of corn is produced in England with 50 days'

labour, it may be equally her interest to import corn from Poland, whether it requires, in Poland, 50 days' labour, or 60, or 40, or any other number, to produce a quarter. Her only consideration is, whether the quantity of cloth with which she can import a quarter costs her less than 50 days' labour.

Thus, if labour in Poland produce corn and cloth in the ratio of eight yards to one quarter, but in England, in the ratio of ten yards to one quarter, exchange will take place.

The practical conclusion may be commodiously and correctly stated thus:

Whenever the purchasing power of any commodity with respect to another is less, in one of two countries, than it is in the other, it is the interest of those countries to exchange these commodities with one another.

If 10 yards of broad-cloth in England can purchase 15 yards of linen, which means that they have cost an equal quantity of labour; while in Germany 10 yards of broad-cloth can purchase 20 yards of linen; it is very evidently the interest of England to send broad-cloth to purchase linen in Germany, because with 10 yards of broad-cloth—that is, as much cost of production as would produce 15 yards of linen—she can obtain 20 yards.

It is equally the interest of Germany to send linen to purchase broad-cloth in England, because with 15 yards of linen she can purchase 10 yards of broad-cloth in England, which, if made at home, would cost her as much as 20 yards of linen.

This difference of purchasing power, which renders it the interest of nations to barter commodities with one another, must be sufficiently great to cover the expense of carriage, and something more, otherwise no advantage is attained.

From what is stated in the preceding chapter, one general, or rather universal, proposition may be produced. The benefit which is derived from exchanging one commodity for another, arises, in all cases, from the commodity

received, not from the commodity given. When one country exchanges—in other words, when one country traffics with another—the whole of its advantage consists in the commodities *imported*. It benefits by the importation, and by nothing else.

This seems to be so very nearly a self-evident proposition, as to be hardly capable of being rendered more clear by illustration; and yet it is so little in harmony with current and vulgar opinions, that it may not be easy, by any illustration, to gain it admission into certain minds.

When a man possesses a certain commodity, he cannot benefit himself by giving it away. It seems to be implied, therefore, in the very fact of his parting with it for another commodity, that he is benefited by what he receives. His own commodity he might have kept, if it had been valued by him more than that for which he exchanges it. The fact of his choosing to have the other commodity rather than his own, is a proof that the other is to him more valuable than his own.

The corresponding facts are evidence equally conclusive in the case of nations. When one nation exchanges a part of its commodities for a part of the commodities of another nation, the nation can gain nothing by parting with its commodities; all the gain must consist in what it receives. If it be said, that the gain consists in receiving money, it will presently appear, from the doctrine of money, that a nation derives no advantage, but the contrary, from possessing more than its due proportion of the precious metals.

In importing commodities which the country itself is competent to produce, as in the case, supposed above, of trade with Poland, we saw that England would import her corn from Poland, if she thus obtained with the produce of 150 days' labour in cloth as much corn as it would have required 200 days' labour to produce in England. If it had so happened, that she could procure in Poland with the cloth only as much corn as she could produce with the same quantity of labour at home, she

would have had no advantage in the transaction. Her advantage would arise, not from what she should export, but wholly from what she should import.

The case in which a country imports commodities which she herself is incompetent to produce, is of still more simple investigation. That country, or, more properly speaking, the people of that country, have certain commodities of their own, but these they are willing to give for certain commodities of other countries. They prefer having those other commodities. They are benefited, therefore, not by what they give away; that it would be absurd to say; but by what they receive.

J. S. MILL.

A thing may sometimes be sold cheapest, by being produced in some other place than that at which it can be produced with the smallest amount of labour and abstinence. England might import corn from Poland and pay for it in cloth, even though England had a decided advantage over Poland in the production of both the one and the other. England might send cottons to Portugal in exchange for wine, although Portugal might be able to produce cottons with a less amount of labour and capital than England could.

It is not a difference in the *absolute* cost of production which determines the interchange, but a difference in the *comparative* cost. It may be to our advantage to procure iron from Sweden in exchange for cottons, even although the mines of England as well as her manufactories should be more productive than those of Sweden; for if we have an advantage of one-half in cottons, and only an advantage of a quarter in iron, and could sell our cottons to Sweden at the price which Sweden must pay for them if she produced them herself, we should obtain our iron with an advantage of one-half, as well as our cottons. We may often, by trading with foreigners, obtain their commodities at a smaller expense of labour and capital than they

cost to the foreigners themselves. The bargain is still advantageous to the foreigner, because the commodity which he receives in exchange, though it has cost us less, would have cost him more.

It is otherwise when the comparative, and not merely the absolute costs of the two articles are different in the two countries. "If," continues the same author,[1] "while the cloth produced with 100 days' labour in Poland was produced with 150 days' labour in England, the corn which was produced in Poland with 100 days' labour could not be produced in England with less than 200 days' labour; an adequate motive to exchange would immediately arise. With a quantity of cloth which England produced with 150 days' labour, she would be able to purchase as much corn in Poland as was there produced with 100 days' labour; but the quantity which was there produced with 100 days' labour would be as great as the quantity produced in England with 200 days' labour." By importing corn, therefore, from Poland, and paying for it with cloth, England would obtain for 150 days' labour what would otherwise cost her 200; being a saving of 50 days' labour on each repetition of the transaction; and not merely a saving to England, but a saving absolutely; for it is not obtained at the expense of Poland, who, with corn that costs her 100 days' labour, has purchased cloth which, if produced at home, would have cost her the same. Poland, therefore, on this supposition, loses nothing; but also she derives no advantage from the trade, the imported cloth costing her as much as if it were made at home. To enable Poland to gain anything by the interchange, something must be abated from the gain of England: the corn produced in Poland by 100 days' labour, must be able to purchase from England more cloth than Poland could produce by that amount of labour; more therefore than England could produce by 150 days' labour, England thus obtaining the corn which would have cost her 200 days,

[1] James Mill.

at a cost exceeding 150, though short of 200. England therefore no longer gains the whole of the labour which is saved to the two jointly by trading with one another.

Before proceeding further, let us contrast this view of the benefits of international commerce with other theories which have prevailed, and which to a certain extent still prevail, on the same subject.

According to the doctrine now stated, the only direct advantage of foreign commerce consists in the imports. A country obtains things which it either could not have produced at all, or which it must have produced at a greater expense of capital and labour than the cost of the things which it exports to pay for them. It thus obtains a more ample supply of the commodities it wants, for the same labour and capital; or the same supply, for less labour and capital, leaving the surplus disposable to produce other things. The vulgar theory disregards this benefit, and deems the advantage of commerce to reside in the exports: as if not what a country obtains, but what it parts with, by its foreign trade, was supposed to constitute the gain to it. An extended market for its produce—an abundant consumption for its goods—a vent for its surplus—are the phrases by which it has been customary to designate the uses and recommendations of commerce with foreign countries. This notion is intelligible, when we consider that the authors and leaders of opinion on mercantile questions have always hitherto been the selling class. It is in truth a surviving relic of the Mercantile Theory, according to which, money being the only wealth, selling, or in other words, exchanging goods for money, was (to countries without mines of their own) the only way of growing rich—and importation of goods, that is to say, parting with money, was so much subtracted from the benefit.

The notion that money alone is wealth has been long defunct, but it has left many of its progeny behind it; and even its destroyer, Adam Smith, retained some opinions which it is impossible to trace to any other origin. Adam

Smith's theory of the benefit of foreign trade, was that it afforded an outlet for the surplus produce of a country, and enabled a portion of the capital of the country to replace itself with a profit. These expressions suggest ideas inconsistent with a clear conception of the phenomena. The expression, surplus produce, seems to imply that a country is under some kind of necessity of producing the corn or cloth which it exports; so that the portion which it does not itself consume, if not wanted and consumed elsewhere, would either be produced in sheer waste, or if it were not produced, the corresponding portion of capital would remain idle, and the mass of productions in the country would be diminished by so much. Either of these suppositions would be entirely erroneous. The country produces an exportable article in excess of its own wants, from no inherent necessity, but as the cheapest mode of supplying itself with other things. If prevented from exporting this surplus, it would cease to produce it, and would no longer import anything, being unable to give an equivalent; but the labour and capital which had been employed in producing with a view to exportation, would find employment in producing those desirable objects which were previously brought from abroad: or, if some of them could not be produced, in producing substitutes for them. These articles would of course be produced at a greater cost than that of the things with which they had previously been purchased from foreign countries. But the value and price of the articles would rise in proportion; and the capital would just as much be replaced with the ordinary profit, from the returns, as it was when employed in producing for the foreign market. The only losers (after the temporary inconvenience of the change) would be the consumers of the heretofore imported articles; who would be obliged either to do without them, consuming in lieu of them something which they did not like as well, or to pay a higher price for them than before.

Such, then, is the direct economical advantage of foreign trade. But there are besides, indirect effects, which must

be counted as benefits of a high order. One is, the tendency of every extension of the market to improve the processes of production. A country which produces for a larger market than its own, can introduce a more extended division of labour, can make greater use of machinery, and is more likely to make inventions and improvements in the processes of production.

The values of commodities produced at the same place, or in places sufficiently adjacent for capital to move freely between them—let us say, for simplicity, of commodities produced in the same country—depend (temporary fluctuations apart) upon their cost of production. But the value of a commodity brought from a distant place, especially from a foreign country, does not depend on its cost of production in the place from whence it comes. On what, then, does it depend? The value of a thing in any place depends on the cost of its acquisition in that place; which, in the case of an imported article, means the cost of production of the thing which is exported to pay for it.

If, then, England imports wine from Spain, giving for every pipe of wine a bale of cloth, the exchange value of a pipe of wine in England will not depend upon what the production of the wine may have cost in Spain, but upon what the production of the cloth has cost in England. Though the wine may have cost in Spain the equivalent of only ten days' labour, yet, if the cloth costs in England twenty days' labour, the wine, when brought to England, will exchange for the produce of twenty days' English labour, *plus* the cost of carriage; including the usual profit on the importer's capital during the time it is locked up and withheld from other employment.

The value, then, in any country, of a foreign commodity depends on the quantity of home produce which must be given to the foreign country in exchange for it. In other words, the values of foreign commodities depend on the terms of international exchange. What, then, do these depend upon? What is it, which, in the case supposed, causes a pipe of wine from Spain to be exchanged with

England for exactly that quantity of cloth? We have seen that it is not their cost of production. If the cloth and the wine were both made in Spain, they would exchange at their cost of production in Spain; if they were both made in England, they would exchange at their cost of production in England: but all the cloth being made in England, and all the wine in Spain, they are in circumstances to which we have already determined that the law of cost of production is not applicable.

When the trade is established between the two countries, the two commodities will exchange for each other at the same rate of interchange in both countries—bating the cost of carriage, of which, for the present, it will be more convenient to omit the consideration. Supposing, therefore, for the sake of argument, that the carriage of the commodities from one country to the other could be effected without labour and without cost, no sooner would the trade be opened than the value of the two commodities, estimate l in each other, would come to a level in both countries.

Suppose that 10 yards of broad-cloth cost in England as much labour as 15 yards of linen, and in Germany as much as 20. It would be the interest of England to import linen from Germany, and of Germany to import cloth from England. When each country produced both commodities for itself, 10 yards of cloth exchanged for 15 yards of linen in England, and for 20 in Germany. They will now exchange for the same number of yards of linen in both. For what number? If for 15 yards, England will be just as she was, and Germany will gain all. If for 20 yards, Germany will be as before, and England will derive the whole of the benefit. If for any number intermediate between 15 and 20, the advantage will be shared between the two countries. If, for example, 10 yards of cloth exchange for 18 of linen, England will gain an advantage of 3 yards on every 15, Germany will save 2 out of every 20. The problem is, what are the causes which determine the proportion in which the cloth of England and the linen of Germany will exchange for each other?

As exchange value, in this case as in every other, is proverbially fluctuating, it does not matter what we suppose it to be when we begin: we shall soon see whether there be any fixed point about which it oscillates, which it has a tendency always to approach to, and to remain at. Let us suppose, then, that by the effect of what Adam Smith calls the higgling of the market, 10 yards of cloth, in both countries, exchange for 17 yards of linen.

The demand for a commodity—that is, the quantity of it which can find a purchaser, varies, as we have before remarked, according to the price. In Germany the price of 10 yards of cloth is now 17 yards of linen, or whatever quantity of money is equivalent in Germany to 17 yards of linen. Now, that being the price, there is some particular number of yards of cloth which will be in demand, or will find purchasers, at that price. There is some given quantity of cloth, more than which could not be disposed of at that price; less than which, at that price, would not fully satisfy the demand. Let us suppose this quantity to be 1000 times 10 yards.

Let us now turn our attention to England. There, the price of 17 yards of linen is 10 yards of cloth, or whatever quantity of money is equivalent in England to 10 yards of cloth. There is some particular number of yards of linen which, at that price, will exactly satisfy the demand, and no more. Let us suppose that this number is 1000 times 17 yards.

As 17 yards of linen are to 10 yards of cloth, so are 1000 times 17 yards to 1000 times 10 yards. At the existing exchange value, the linen which England requires will exactly pay for the quantity of cloth which, on the same terms of interchange, Germany requires. The demand on each side is precisely sufficient to carry off the supply on the other. The conditions required by the principle of demand and supply are fulfilled, and the two commodities will continue to be interchanged, as we supposed them to be, in the ratio of 17 yards of linen for 10 yards of cloth.

But our suppositions might have been different. Sup-

pose that, at the assumed rate of interchange, England had been disposed to consume no greater quantity of linen than 800 times 17 yards: it is evident that, at the rate supposed, this would not have sufficed to pay for the 1000 times 10 yards of cloth which we have supposed Germany to require at the assumed value. Germany would be able to procure no more than 800 times 10 yards at that price. To procure the remaining 200, which she would have no means of doing but by bidding higher for them, she would offer more than 17 yards of linen in exchange for 10 yards of cloth: let us suppose her to offer 18. At this price, perhaps, England would be inclined to purchase a greater quantity of linen. She would consume, possibly, at that price, 900 times 18 yards. On the other hand, cloth having risen in price, the demand of Germany for it would probably have diminished. If, instead of 1000 times 10 yards, she is now contented with 900 times 10 yards, these will exactly pay for the 900 times 18 yards of linen which England is willing to take at the altered price: the demand on each side will again exactly suffice to take off the corresponding supply; and 10 yards for 18 will be the rate at which, in both countries, cloth will exchange for linen.

The converse of all this would have happened, if, instead of 800 times 17 yards, we had supposed that England, at the rate of 10 for 17, would have taken 1200 times 17 yards of linen. In this case, it is England whose demand is not fully supplied; it is England who, by bidding for more linen, will alter the rate of interchange to her own disadvantage; and 10 yards of cloth will fall, in both countries, below the value of 17 yards of linen. By this fall of cloth, or what is the same thing, this rise of linen, the demand of Germany for cloth will increase, and the demand of England for linen will diminish, till the rate of interchange has so adjusted itself that the cloth and the linen will exactly pay for one another; and when once this point is attained, values will remain without further alteration.

In this statement, I conceive, is contained the first elementary principle of International Values. I have, as

is indispensable in such abstract and hypothetical cases, supposed the circumstances to be much less complex than they really are: in the first place by suppressing the cost of carriage; next, by supposing that there are only two countries trading together; and lastly, that they trade only in two commodities.

The law which we have now illustrated may be appropriately named the Equation of International Demand. It may be concisely stated as follows: The produce of a country exchanges for the produce of other countries, at such values as are required in order that the whole of her exports may exactly pay for the whole of her imports. This law of International Values is but an extension of the more general law of Value, which we called the Equation of Supply and Demand. We have seen that the value of a commodity always so adjusts itself as to bring the demand to the exact level of the supply. But all trade, either between nations or individuals, is an interchange of commodities, in which the things that they respectively have to sell constitute also their means of purchase: the supply brought by the one constitutes his demand for what is brought by the other. So that supply and demand are but another expression for reciprocal demand: and to say that value will adjust itself so as to equalise demand with supply, is in fact to say that it will adjust itself so as to equalise the demand on one side with the demand on the other.

We now pass to another essential part of the theory of the subject. There are two senses in which a country obtains commodities cheaper by foreign trade; in the sense of Value, and in the sense of Cost. It gets them cheaper in the first sense, by their falling in value relatively to other things: the same quantity of them exchanging, in the country, for a smaller quantity than before of the other produce of the country. To revert to our original figures: in England, all consumers of linen obtained, after the trade was opened, 17 or some greater number of yards for the same quantity of all other things for which they before

obtained only 15. The degree of cheapness, in this sense of the term, depends on the laws of International Demand, so copiously illustrated in the preceding sections. But in the other sense, that of Cost, a country gets a commodity cheaper when it obtains a greater quantity of the commodity with the same expenditure of labour and capital. In this sense of the term, cheapness in a great measure depends upon a cause of a different nature: a country gets its imports cheaper, in proportion to the general productiveness of its domestic industry; to the general efficiency of its labour. The labour of one country may be, as a whole, much more efficient than that of another: all or most of the commodities capable of being produced in both, may be produced in one at less absolute cost than in the other; which, as we have seen, will not necessarily prevent the two countries from exchanging commodities. The things which the more favoured country will import from others, are of course those in which it is least superior; but by importing them it acquires, even in those commodities, the same advantage which it possesses in the articles it gives in exchange for them. Thus the countries which obtain their own productions at least cost, also get their imports at least cost.

This will be made still more obvious if we suppose two competing countries. England sends cloth to Germany, and gives 10 yards of it for 17 yards of linen, or for something else which in Germany is the equivalent of those 17 yards. Another country, as for example France, does the same. The one giving 10 yards of cloth for a certain quantity of German commodities, so must the other: if, therefore, in England, these 10 yards are produced by only half as much labour as that by which they are produced in France, the linen or other commodities of Germany will cost to England only half the amount of labour which they will cost to France. England would thus obtain her imports at less cost than France, in the ratio of the greater efficiency of her labour in the production of cloth: which might be taken, in the case supposed, as an approximate

estimate of the efficiency of her labour generally; since France, as well as England, by selecting cloth as her article of export, would have shown that with her also it was the commodity in which labour was relatively the most efficient. It follows, therefore, that every country gets its imports at less cost, in proportion to the general efficiency of its labour.

This proposition was first clearly seen and expounded by Mr. Senior, but only as applicable to the importation of the precious metals. I think it important to point out that the proposition holds equally true of all other imported commodities; and further, that it is only a portion of the truth. For, in the case supposed, the cost to England of the linen which she pays for with ten yards of cloth, does not depend solely upon the cost to herself of ten yards of cloth, but partly also upon how many yards of linen she obtains in exchange for them. What her imports cost to her is a function of two variables; the quantity of her own commodities which she gives for them, and the cost of those commodities. Of these, the last alone depends on the efficiency of her labour: the first depends on the law of international values; that is, on the intensity and extensibility of the foreign demand for her commodities, compared with her demand for foreign commodities.

M'CULLOCH.

Suppose, to exemplify the mode in which variations in the rate of wages really affect foreign commerce, that England and France have *equal* facilities for producing all sorts of commodities, and that the rate of wages is equal in both countries; and let the following numbers represent the different classes of capital, ranged according to the different degrees of their durability, employed in production in England and France, viz.:—

Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, etc., England.
Nos. 1′, 2′, 3′, 4′, 5′, 6′, 7′, 8′, 9′, 10′, 11′, etc., France.

Now, as the two countries are supposed to have equal

facilities of production, and as the rate of wages in them both is also supposed to be the same, the commodities produced by each will sell equally well in any third market, as in that of the United States, equally open to both: but, suppose that, while wages continue stationary in France, they rise in England, and mark the result. All that class of commodities produced in England by the capitals Nos. 7, 8, 9, 10, etc., which are above the *medium* degree of durability, and may be supposed to consist chiefly of machinery, will fall, while those produced by the less durable capitals Nos. 1, 2, 3, 4, etc., will rise. The former will not, however, fall only in relation to other commodities produced in England by less durable capitals, but they will *also fall in relation to the commodities produced in France by the corresponding and equally durable capitals* Nos. 7′, 8′, 9′, 10′, etc.; while the latter, or the commodities produced in England by the capitals Nos. 1, 2, 3, 4, etc., will rise in value as compared with the commodities produced in France by the corresponding capitals, Nos. 1′, 2′, 3′, 4′, etc. The merchants of England and France will, therefore, no longer come into the American market on the same terms as formerly; for England will now have a decided advantage over France in the production and sale of those commodities that are produced chiefly by machinery, while France will, on her part, have an equally decided advantage over England in the production and sale of those commodities that are chiefly the direct produce of the hand. And such, in point of fact, is actually the case. The bulk of our exports consists of cotton goods and other products of machinery: whereas the bulk of the exports of France consists of the productions of her soil, and of jewellery and fancy articles, principally the product of manual labour. It is, therefore, quite idle to suppose that a rise of wages can ever be fatal to the foreign commerce of a country. It may, indeed, turn it into new channels, but that is all it can do. If, on the one hand, it raises the value of certain descriptions of commodities, and checks their exportation, on the other hand, it proportionately lowers the value of

other descriptions, and fits them the better for the foreign market.

It appears, therefore, that instead of our high wages laying our cotton manufacturers under any disadvantage in the sale of their goods as compared with their continental competitors, their effect is distinctly the reverse. The high wages we pay to our workmen cause *low profits;* and as the principal part of the value of cottons and other commodities chiefly produced by the agency of machinery, consists of profits, it must be comparatively low where wages are high. Suppose, for example, that two highly durable machines, of equal power and goodness, and which can manufacture commodities with but little manual labour, are erected, the one in France and the other in England: if the machines cost £20,000 each, and if the rate of profit in France is seven and in England five per cent., the goods produced by the French machine would have to sell for £1400, whereas those produced by the English machine would only sell for £1000. It should also be observed, inasmuch as one description of machinery is for the most part largely employed in the production of another, that it is most probable, in the event of one of the machines being made in England and the other in France, that the English one would cost so much as £20,000, and that its produce might on that account be sold under £1000. Independently, however, of this circumstance, the advantage that our manufacturers who employ a great proportion of machinery must have over those of France, in consequence of our higher wages and lower profits, is obvious and decided. This principle sets the impolicy of the restrictions on the exportation of the machinery used in cotton-mills in a very striking point of view. It is quite evident that although France were possessed of all those facilities for manufacturing cottons we now enjoy, though Normandy were a second Lancashire, and Rouen a facsimile of Manchester, her manufacturers would not be able to enter into a successful competition with those of England. The possession of better machinery would have no tendency to

raise wages and lower profits in France; and, till this is done, we must, supposing we continue to possess *equal facilities* of production, always have a decided ascendency over the French in the sale of such articles as are mainly produced by means of machinery.

CHAPTER VIII.

PRODUCTIVE AND UNPRODUCTIVE LABOUR.

ADAM SMITH.

THERE is one sort of labour which adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called productive: the latter, unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expense, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers: he grows poor by maintaining a number of menial servants. The labour of the latter, however, has its value, and deserves its reward as well as that of the former. But the labour of the manufacturer fixes and realises itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past. It is, as it were, a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labour equal to that which had originally produced it. The labour of the menial servant, on the contrary, does not fix or realise itself

in any particular subject or vendible commodity. The services of the menial generally perish in the very instant of their performance, and seldom leave any trace of value behind them, for which an equal quantity of service could afterwards be procured.

The labour of some of the most respectable orders in society is, like that of menial servants, unproductive of any value, and does not fix or realise itself in any permanent subject, or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people. Their service, how honourable, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defence of the commonwealth, the effect of their labour this year, will not purchase its protection, security, and defence for the year to come. In the same class must be ranked some both of the gravest and most important, and some of the most frivolous professions; churchmen, lawyers, physicians, men of letters of all kinds: lawyers, buffoons, musicians, opera-singers, opera-dancers, etc. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful produces nothing which could afterwards purchase an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.

The proportion between capital and labour, therefore, seems everywhere to regulate the proportion between industry and idleness. Wherever capital predominates, industry prevails; wherever revenue, idleness. Every increase or diminution of capital, therefore, naturally tends

to increase or diminish the real quantity of industry, the number of productive hands, and, consequently, the exchangeable value of the annual produce of the land and labour of the country, the real wealth and revenue of all its inhabitants.

Capitals are increased by parsimony, and diminished by prodigality and misconduct. Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so by lending it to him for an interest—that is, for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue or his annual gains, so the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner.

Parsimony, and not industry, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up, the capital would never be the greater. Parsimony, by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to the value of the subject upon which it is bestowed. It tends therefore to increase the exchangeable value of the annual produce of the land and labour of the country. It puts into motion an additional quantity of industry, which gives an additional value to the annual produce.

What is annually saved is as regularly consumed as what is annually spent, and nearly in the same time, too; but it is consumed by a different set of people. That portion of his revenue which a rich man annually spends is in most cases consumed by idle guests and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves, as for the sake of the profit it is immediately employed as a capital, is consumed in the same manner, and nearly in the same time, too, but

by a different set of people, by labourers, manufacturers, and artificers, who reproduce with a profit the value of their annual consumption. His revenue, we shall suppose, is paid him in money. Had he spent the whole, the food, clothing, lodging which the whole could have purchased, would have been distributed among the former set of people. By saving a part of it, as that part is for the sake of the profit immediately employed as a capital, either by himself or by some other person, the food, clothing, and lodging which may be purchased with it, are reserved for the latter. The consumption is the same, but the consumers are different.

SENIOR.

It is said *that the unproductive consumption of landlords and capitalists is beneficial to the labouring classes, because it furnishes them with employment.* "Tillage," says Paley (and this is another form of the same fallacy), "is preferable to pasturage, not only because the provision which it yields goes much further in the sustentation of life, but because it affords *employment* to a more numerous peasantry." The production of more subsistence is certainly an advantage, but what is the advantage of its requiring more labour? If this be an advantage, the fertility of land is an evil. If the thing required be *employment*, we should abandon ploughs and even spades. To scratch up a rood with the fingers would give more employment than to dig an acre. Those who maintain that unproductive consumption does good by affording employment, must forget that it is not employment, but food, clothing, shelter, and fuel, in short, the materials of subsistence and comfort, that the labouring classes require. The word "employment" is merely a concise form of designating toil, trouble, exposure, and fatigue. It is indeed sometimes elliptically used as implying the subsistence which is purchased by enduring it. A poor man complains that he wants *work*. He might work to his heart's content, and with no man's leave, if he chose to

carry stones from the bottom to the top of a hill. But what he wants is work as a means of obtaining payment. He would be happy to get the payment without the work. Toil, exposure, and fatigue, *per se*, are evils, and the less of them that is required for obtaining a given amount of subsistence and comfort, or, in other words, the greater the facility of obtaining that given amount, the better, *cæteris paribus*, will be the condition of the labouring classes; indeed, of all classes in the community. What occasions the prosperity of a colony? Not the dearness of subsistence, but its cheapness; not the difficulty of obtaining food, clothing, shelter, and fuel, but the facility. Now how can unproductive consumption increase this facility? How can the fund from which all are to be maintained be augmented by the destruction of a portion of it? If the higher orders were to return to the customs of a century ago, and cover their coats with gold lace, they might enjoy their own finery; but how would that benefit their inferiors? The theory which we are considering replies that they would be benefited by being *employed* in making the lace. It is true that a coat, instead of costing £5, would cost £55. But what becomes *now* of the extra £50? for it cannot be said that, because it is not spent on a laced coat, it does not exist. If a landlord with £10,000 a year spends it unproductively, he pays it away to those who furnish the embellishments of his house and grounds, and supply his stable, his equipage, and his clothes. Suppose him now to abandon all unproductive expenditure, to confine himself to bare necessaries, and to earn them by his own labour, the first consequence would be, that those among whom he previously spent his £10,000 a year would lose him as an employer; and beyond this the theory in question sees nothing. But what would he do with the £10,000 which he would still annually receive? No one supposes that he would lock it up in a box or bury it in his garden. Whether productively or unproductively, it still must be spent. If spent by himself, as by the supposition it would be spent productively, it

must increase, and every year still further increase, the whole fund applicable to the use of the rest of the community. If not spent by himself, it must be lent, as is done by a miser of the present day, to some other person, and by that person it must be spent productively or unproductively. He might, perhaps, buy with it property in the English funds; but what becomes of it in the hands of the person who sells to him that funded property? He might buy with it French rentes; but in what form would the price of those rentes go to Paris? In the form, as we have seen, of manufactured commodities. *Quacunque via data,* every man must spend his income; and the less he spends on himself, the more remains for the rest of the world.

RICARDO.

The labouring class have no small interest in the manner in which the net income of the country is expended, although it should, in all cases, be expended for the gratification and enjoyment of those who are fairly entitled to it.

If a landlord, or a capitalist, expends his revenue in the manner of an ancient baron, in the support of a great number of retainers or menial servants, he will give employment to much more labour than if he expended it on fine clothes or costly furniture.

In both cases the net revenue would be the same, and so would be the gross revenue, but the former would be realised in different commodities. If my revenue were £10,000, the same quantity nearly of productive labour would be employed, whether I realised it in fine clothes and costly furniture, etc., etc., or in a quantity of food and clothing of the same value. If, however, I realised my revenue in the first set of commodities, no more labour would be *consequently* employed: I should enjoy my furniture and my clothes, and there would be an end of them; but if I realised my revenue in food and clothing, and my desire was to employ menial servants, all those whom I could so employ with my revenue of £10,000, or with the food and

clothing which it would purchase, would be to be added to the former demand for labourers, and this addition would take place only because I chose this mode of expending my revenue. As the labourers, then, are interested in the demand for labour, they must naturally desire that as much as possible should be diverted from expenditure on luxuries, to be expended in the support of menial servants.

In the same manner, a country engaged in war, and which is under the necessity of maintaining large fleets and armies, employs a great many more men than will be employed when the war terminates, and the annual expenses which it brings with it cease.

If I were not called upon for a tax of £500 during the war, which is expended on men in the situations of soldiers and sailors, I might probably spend that portion of my income on furniture, clothes, books, etc., etc., and whether it was expended in the one way or the other, there would be the same quantity of labour employed in production; for the food and clothing of the soldier and sailor would require the same amount of industry to produce them as the more luxurious commodities; but, in the case of war, there would be the additional demand for men as soldiers and sailors; and, consequently, a war which is supported out of the revenue, and not from the capital of a country, is favourable to an increase of population.

At the termination of the war, when part of my revenue reverts to me, and is employed as before in the purchase of wine, furniture, or other luxuries, the population which it before supported, and which the war called into existence, will become redundant, and by its effect on the rest of the population, and its competition with it for employment, will sink the value of wages, and very materially deteriorate the condition of the labouring classes.

M'CULLOCH.

Adam Smith says that the labour of the menial servant is *unproductive*, because it is not realised in a vendible com-

modity, while the labour of the manufacturer is *productive*, because it is so realised. But of what is the labour of the manufacturer really productive? Does it not consist exclusively of comforts and conveniences required for the use and accommodation of society? The manufacturer is *not* a producer of matter, but of *utility* only. And is it not obvious that the labour of the menial servant is also productive of utility? It is universally allowed that the labour of the husbandman who raises corn, beef, and other articles of provision, is productive; but if so, why is the labour of the menial servant who performs the *necessary* and *indispensable* task of preparing and dressing these articles, and fitting them to be used, to be set down as unproductive? It is clear to demonstration, that there is no difference whatever between the two species of industry—that they are either both productive, or both unproductive. To produce a fire, it is just as necessary that coals should be carried from the cellar to the grate, as that they should be carried from the bottom of the mine to the surface of the earth: and if it is said that the miner is a productive labourer, must we not also say the same of the servant, who is employed to make and mend the fire? The whole of Adam Smith's reasoning proceeds on a false hypothesis. He has made a distinction where there is none, and where it is not in the nature of things there can be any. The end of all human exertion is the same—that is, to increase the sum of necessaries, comforts, and enjoyments; and it must be left to the judgment of every one to determine what proportion of these comforts he will have in the shape of menial services, and what in the shape of material products. It is true, as has been sometimes stated, that the results of the labour of the menial servant are seldom capable of being estimated in the same way as the results of the agriculturist, manufacturer, or merchant; but they are not, on that account, the less real or valuable. Could the same quantity of work be performed by those who are called productive labourers, were it not for the assistance they derive from those who are falsely called unproductive?

A merchant or banker, who is making £5000 or £10,000 a year by his business, may perhaps be expending £1000 on his servants; now, it is plain, that if he tries to save this sum he can do so only by turning his servants adrift, and becoming coachman, footman, and washerwoman for himself; and, if he does this, he will, instead of making £5000 or £10,000 a year, be most probably unable to make even £50! No doubt a man will be ruined if he keeps more servants than he has occasion for, or than he can afford to pay; but his ruin would be equally certain were he to purchase an excess of food or clothes, or to employ more workmen in any branch of manufacture than are required to carry it on, or than his capital could employ. To keep two ploughmen when one only might suffice, is just as improvident and wasteful expenditure as it is to keep two footmen to do the business of one. *It is in the extravagant quantity of the commodities we consume or the labour we employ, and not in the particular species of commodities or labour, that we must seek for the causes of impoverishment.*

The same reasoning applies to all the other cases mentioned by Adam Smith. Take, for example, the case of the physician. Adam Smith tells us that he is an unproductive labourer, because he does not directly produce something that has exchangeable value. But if he does the same thing *indirectly*, what is the difference? If the exertions of the physician are conducive to health, and if, as is undoubtedly the case, he enables others to produce more than they could do without his assistance, then it is plain he is *indirectly*, at least, if not directly, a productive labourer. Adam Smith makes no scruple about admitting the just title of the workmen employed to repair a steam engine to be enrolled in the productive class; and yet he would place a physician, who had been instrumental in saving the life of an Arkwright or a Watt, among those that are unproductive! It is impossible that these inconsistencies and contradictions could have occurred to Adam Smith; and the errors into which he has fallen in treating this important branch of the science, shows, in the strongest manner, the absolute

necessity of advancing with extreme caution, and of subjecting every theory, how plausible and ingenious soever it may appear when first stated, to a severe and patient examination.

An occupation may be futile and trifling to the last degree without being unproductive. We are entitled to affirm, at once, that an individual who employs himself an hour a day in blowing bubbles or building houses of cards, is engaged in a futile employment; but we are not, without further inquiry, entitled to affirm that it is unproductive. This will depend on a contingency: the employment will be as unproductive as it is frivolous, if it does not stimulate the individual to make any greater exertion during the remaining twenty-three hours of the twenty-four than he did previously: but if, in order to indemnify himself for the time that is thus spent, he produces as many useful and desirable commodities during the period he can still devote to that purpose as he previously produced, the employment will *not* be unproductive: and if the desire to indulge in it leads him to produce more commodities than he did before, it will be positively productive.

Dr. Paley had a distinct perception of this doctrine, and has stated it with his usual force and clearness. "A watch," he observes, "may be a very unnecessary appendage to the dress of a peasant; yet if the peasant will till the ground in order to obtain a watch, the true design of commerce is answered; and the watchmaker, while he polishes the case and files the wheels of his ingenious machine, is contributing to the production of corn as effectually, though not so directly, as if he handled the plough or the spade. The use of tobacco is an acknowledged superfluity; but if the fisherman will ply his nets, and the mariner fetch rice from foreign countries, in order to procure to himself this indulgence, the market is supplied with two important articles of provision by the instrumentality of a merchandise which has no other apparent use than the gratification of a vitiated palate."

It is on this principle that the productiveness of the

labour of players, singers, opera-dancers, buffoons, etc., depends. A taste for the amusements they afford has exactly the same effect on national wealth as a taste for tobacco, champagne, or any other luxury. We wish to be present at their exhibitions; and, in order to get admittance, we pay the price or equivalent demanded by them for their services. But this price or equivalent is not a gratuitous product of nature—it is the result of industry. And hence it is, that the amusements afforded by these persons—however trifling they may seem in the estimation of cynics and *soi-disant* moralists—create new wants, and by so doing necessarily stimulate our industry to procure the means of gratifying them. They are unquestionably, therefore, a *cause* of production; and it is very like a truism to say that what is a cause of production must be productive.

The productiveness of the higher class of functionaries mentioned by Adam Smith is still more obvious. So far, indeed, from being unproductive, they are, when they properly discharge the duties of their high station, the most productive labourers in a state. Adam Smith says, that the results of their service—that is, to use his own words, "the protection, security, and defence of the commonwealth any one year, will not purchase its protection, security, and defence for the year to come." But this is plainly an error. The protection and security afforded by good government may not be directly a cause of wealth; but it is indirectly so; for it is plain that, without this security and protection, the productive powers of industry could not be brought into action. Adam Smith would allow that the material products produced by the society one year were to form the means of producing its supplies of necessaries, conveniences, and enjoyments during the following year. But without the security and protection afforded by government, these products would either not exist at all, or their quantity would be very greatly diminished. How, then, is it possible to deny that those whose labour is necessary to afford this security are productively employed? Take the case of the labourers employed to construct fences; no one ever

presumed to doubt that their labour is productive; and yet they do not contribute *directly* to the production of corn or of any other valuable product. The object of their industry is to give protection and security; to guard the fields that have been fertilised and planted by the husbandman from depredation; and to enable him to prosecute his employments without having his attention distracted by the care of watching. But if the security and protection afforded by the hedger or ditcher justly entitle him to be classed among those who contribute to enrich their country, on what principle can those public servants whose exertions protect property in the mass, and render every portion of it secure against hostile aggression, and the attacks of thieves and plunderers, be said to be unproductive? If the labourers who protect a single corn-field from the neighbouring crows and cattle be productive, then surely the judges and magistrates, the soldiers and sailors, who protect every field in the empire, and to whom it is owing that all classes of inhabitants feel secure in the enjoyment of their property, rights, and privileges, have a right to be classed among those whose services are supereminently productive.

That much wealth has been unproductively consumed by the servants of the public, both in this and other countries, it is impossible to doubt. But we are not to argue from the abuses extrinsic to a beneficial institution against the institution itself. If the public pay their servants excessive salaries, or employ a greater number than is required for the purposes of good government and security, it is their own fault. Their conduct is the same as that of a manufacturer who should pay his labourers comparatively high wages, and employ more of them than he had occasion for. But, although a state, or an individual, may act in this foolish and extravagant manner, it would be rather rash to conclude from thence that *all* public servants and *all* manufacturing labourers are unproductive! If the establishments which provide security and protection be formed on an extravagant scale,—if we have more judges or magistrates, more soldiers or sailors, than are necessary, or if we pay

them larger salaries than would suffice to procure the services of others, let their numbers and their salaries be reduced. The excess, if there be any, is not a fault inherent in the nature of such establishments, but results entirely from the extravagant scale on which they have been arranged.

It was formerly shown that, by the production of a commodity was not meant the production of matter, for that is the exclusive prerogative of Omnipotence, but the giving to matter already in existence such a shape as might fit it for ministering to our wants and enjoyments. In like manner, by consumption is not meant the consumption, or annihilation of matter, for that is equally impossible as its creation, but merely *the consumption or annihilation of those qualities which render commodities useful and desirable.* To consume the products of art and industry is, therefore, really to deprive the matter of which they consist of the utility, and consequently of the exchangeable value communicated to it by labour. And hence we are not to measure consumption by the magnitude, the weight, or the number of the products consumed, but exclusively *by their value.* Large consumption is the destruction of large value, however small the bulk in which that value may happen to be compressed.

Consumption, in the sense in which the word is used by political economists, is synonymous with *use.* We produce commodities only that we may be able to use or consume them. Consumption is the great end and object of all human industry. Production is merely a means to attain an end. No one would produce were it not that he might afterwards consume. All the products of art and industry are destined to be consumed, or made use of; and when a commodity is brought into a state fit to be used, if its consumption be deferred, a loss is incurred. All products are intended either to satisfy the immediate wants, or to add to the enjoyments of their producers; or they are intended to be employed for the purpose of reproducing a greater value than themselves. In the *first* case, by delaying to use them,

it is plain we either refuse to satisfy a want, or deny ourselves a gratification it is in our power to obtain; and, in the *second*, by delaying to use them, it is equally plain we allow the instruments of production to lie idle, and then we lose the profit that might be derived from their employment.

But, although all commodities are produced only to be consumed, we must not fall into the error of supposing that all consumption is equally advantageous to the individual or the society. It is, however, exceedingly difficult to draw a distinct line of demarcation between advantageous or disadvantageous, or, as it is more commonly termed, productive and unproductive consumption. In so far, however, as the public interests are involved, and it is such only that we are now called upon to consider, all consumption of the products of art and industry may be held to be productive *if it occasions, whether directly or indirectly, the production of the same or of a greater quantity of equally valuable products, and unproductive if it has not that effect.* The mere fact of a commodity being consumed for a particular purpose, or in a particular way, will not authorise us to affirm, without further inquiry, that its consumption has been advantageous, or the reverse. Before we can decide on such a point, we must take into view, and carefully examine the remote as well as the immediate effects of the consumption. It would not, for example, be enough to prove, that a certain amount of wealth had been productively employed, to be told, that it had been laid out in the improvement of the soil, in the excavation of a canal, or in any similar undertaking; for it might have been laid out injudiciously, or in such a way that it could not reproduce itself. Neither, on the other hand, would it be enough to prove, that any given amount of wealth had been laid out unproductively, to be told, that it had been expended in equipages or entertainments; for the desire to indulge in this expense might have been the cause of the wealth being originally produced, and the desire to indulge in similar expense might occasion the subsequent production of a still greater quantity.

It was long a prevalent opinion among moralists, that the labour bestowed on the production of luxuries, and consequently their consumption, was unproductive and disadvantageous. If a man wished to get rich, his object, it was said, ought not to be to increase his fortune, but to lessen his wants. *Si quem volueris esse divitem, non est quod augeas divitias sed minuas cupiditates.* Had these opinions ever obtained any considerable influence, they would have formed an insuperable obstacle to all improvement. Those who are contented with the situation in which they are placed, can have no motive to induce them to aspire at anything better. And hence it is to the absence of this feeling of contentment, and the existence of that which is directly opposed to it,—to the desire to rise in the world, to improve our condition, and to obtain a constantly increasing command over the conveniences and luxuries of life, that society is indebted for every improvement. No progress can be made in civilisation, in any country, until this desire has been excited: and the more powerful and urgent it becomes, the more rapid will be the accumulation of wealth, and the more prosperous will every individual become. The mere necessaries of life may be obtained with comparatively little labour; and those savage and uncivilised hordes, who have no desire to possess its comforts, are proverbially and notoriously indolent and dissipated. To make men industrious—to make them shake off that lethargy which is natural to them, they must be inspired with a taste for the luxuries and enjoyments of civilised life. When this is done, their artificial wants will become equally clamorous with those that are strictly necessary, and they will increase exactly as the means of gratifying them increase. Wherever a taste for comforts and conveniences has been generally diffused, the wants and desires of man become altogether unlimited. The gratification of one leads directly to the formation of another. In highly civilised societies, new products and new modes of enjoyment are constantly presenting themselves as motives to exertion, and as means of rewarding it. Perseverance is, in

consequence, given to all the operations of industry; and idleness, and its attendant train of evils, almost entirely disappear. "What," asks Dr. Paley, "can be less necessary, or less connected with the sustentation of human life, than the whole produce of the silk, lace, and plate manufactory? Yet what multitudes labour in the different branches of these arts! What can be imagined more capricious than the fondness for tobacco and snuff? Yet how many various occupations, and how many thousands in each, are set at work in administering to this frivolous gratification!" It is the *stimulus* which the desire to possess these articles of luxury gives to industry that renders their introduction advantageous. The earth is capable of furnishing food adequate for the support of a much greater portion of human beings than can be employed in its cultivation. But those who are in possession of the soil will not part with their produce for nothing; or rather, they will not raise at all what they can neither use themselves nor exchange for what they want. As soon, however, as a taste for conveniences and luxuries has been introduced, the occupiers of the ground raise from it the utmost that it can be made to produce, and exchange the surplus for such conveniences and gratifications as they are desirous of obtaining; and, in consequence, the producers of these articles, though they have neither property in the soil, nor any concern in its cultivation, are regularly and liberally supplied with its produce. In this way, the quantity of *necessaries*, as well as of useful and agreeable products, is vastly increased by the introduction of a taste for luxuries: and the population are, in consequence, not only better provided for, but their numbers are proportionally and greatly augmented.

There is hardly a single article among those that are now reckoned most indispensable to existence, or a single improvement of any sort, which has not been denounced at its introduction as a useless superfluity, or as being in some way injurious. Few things are now considered more essential than shirts; and yet there are instances on record of individuals being put in the pillory for presuming to wear

so expensive and unnecessary an article! Chimneys were not commonly used in England until about the middle of the sixteenth century; and, in the introductory discourse to Hollinshed's *Chronicles*, published in 1577, there is a bitter complaint of the multitude of chimneys lately erected, and of the exchange of wooden platters for earthenware and pewter. Another author of the same period laments that nothing but oak is used for building, instead of willow, as heretofore;—adding, that "formerly our houses indeed were of willow, but our men were of oak; but now that our houses are of oak, our men are not only of willow, but some altogether of straw!"

It is plain, therefore, that the consumption of luxuries cannot, provided it be confined within proper limits, be justly considered as either disadvantageous or unproductive. If, indeed, a man were to consume more luxuries than his labour or his fortune enabled him to command, his consumption would be disadvantageous. But it would be equally disadvantageous were he to consume a greater quantity of *necessaries* than he could afford. The mischief does not consist in the *species* of articles consumed, but in the *excess of their value* over the means of purchasing them possessed by the consumer. This, however, is a fault which ought always to be left to be corrected by the *self-interest* of those concerned. The poverty and degradation caused by indulging in unproductive consumption is a natural and sufficient guarantee against its ever being carried to an injurious extent. And to attempt to lessen unproductive consumption by proscribing luxury, is in effect attempting to enrich a country by taking away the most powerful motives to production!

J. S. MILL.

Labour is indispensable to production, but has not always production for its effect. There is much labour, and of a high order of usefulness, of which production is not the object. Labour has accordingly been distinguished into

Productive and Unproductive. We must therefore enter a little into the consideration of the various meanings which may attach to the words productive and unproductive when applied to labour.

In the first place, even in what is called the production of material objects, it must be remembered that what is produced is not the matter composing them. All the labour of all the human beings in the world could not produce one particle of matter. To weave broad-cloth is but to re-arrange, in a peculiar manner, the particles of wool; to grow corn is only to put a portion of matter called a seed into a situation where it can draw together particles of matter from the earth and air, to form the new combination called a plant. Though we cannot create matter, we can cause it to assume properties, by which, from having been useless to us, it becomes useful. What we produce, or desire to produce, is always, as M. Say rightly terms it, a utility. Labour is not creative of objects, but of utilities. Neither, again, do we consume and destroy the objects themselves; the matter of which they were composed remains, more or less altered in form: what has really been consumed is only the qualities by which they were fitted for the purpose they have been applied to. It is, therefore, pertinently asked by M. Say and others—since, when we are said to produce objects, we only produce utility, why should not all labour which produces utility be accounted productive? Why refuse that title to the surgeon who sets a limb, the judge or legislator who confers security, and give it to the lapidary who cuts and polishes a diamond? Why deny it to the teacher from whom I learn an art by which I can gain my bread, and accord it to the confectioner who makes bonbons for the momentary pleasure of a sense of taste?

It is quite true that all these kinds of labour are productive of utility. Productive labour means labour productive of wealth.

But in applying the term wealth to the industrial capacities of human beings, there seems always, in popular apprehen-

sion, to be a tacit reference to material products. The skill of an artisan is accounted wealth, only as being the means of acquiring wealth in a material sense; and any qualities not tending visibly to that object are scarcely so regarded at all.

I shall, therefore, in this treatise, when speaking of wealth, understand by it only what is called material wealth, and by productive labour only those kinds of exertion which produce utilities embodied in material objects.

Unproductive may be as useful as productive labour; it may be more useful, even in point of permanent advantage; or its use may consist only in pleasurable sensation, which when gone leaves no trace; or it may not afford even this, but may be absolute waste. In any case society or mankind grows no richer by it, but poorer.

The distinction of Productive and Unproductive is applicable to consumption as well as to labour. All the members of the community are not labourers, but all are consumers, and consume either unproductively or productively. Whoever contributes nothing directly or indirectly to production, is an unproductive consumer. The only productive consumers are productive labourers; the labour of direction being of course included, as well as that of execution. But the consumption even of productive labourers is not all of it productive consumption. There is unproductive consumption by productive consumers. What they consume in keeping up or improving their health, strength, and capacities of work, or in rearing other productive labourers to succeed them, is productive consumption. But consumption on pleasures or luxuries, whether by the idle or by the industrious, since production is neither its object nor is in any way advanced by it, must be reckoned unproductive: with a reservation perhaps of a certain quantum of enjoyment which may be classed among necessaries, since anything short of it would not be consistent with the greatest efficiency of labour. That alone is productive consumption, which goes to maintain and increase the productive powers of the community; either those residing in its soil, in its materials,

in the number and efficiency of its instruments of production, or in its people.

There are numerous products which may be said not to admit of being consumed otherwise than unproductively. The annual consumption of gold lace, pineapples, or champagne must be reckoned unproductive, since these things give no assistance to production, nor any support to life or strength, but what would equally be given by things much less costly. Hence it might be supposed that the labour employed in producing them ought not to be regarded as productive, in the sense in which the term is understood by political economists. I grant that no labour tends to the permanent enrichment of society, which is employed in producing things for the use of unproductive consumers. The tailor who makes a coat for a man who produces nothing, is a productive labourer; but in a few weeks or months the coat is worn out, while the wearer has not produced anything to replace it, and the community is then no richer by the labour of the tailor, than if the same sum had been paid for a stall at the opera. Nevertheless, society has been richer by the labour while the coat lasted—that is, until society, through one of its unproductive members, chose to consume the produce of the labour unproductively. The case of the gold lace or the pine-apple is no further different, than that they are still further removed than the coat from the character of necessaries. These things also are wealth until they have been consumed.

We see, however, by this, that there is a distinction, more important to the wealth of a community than even that between productive and unproductive labour; the distinction, namely, between labour for the supply of productive and for the supply of unproductive, consumption; between labour employed in keeping up or in adding to the productive resources of the country, and that which is employed otherwise. Of the produce of the country, a part only is destined to be consumed productively; the remainder supplies the unproductive consumption of producers, and the entire consumption of the unproductive classes. Suppose

that the proportion of the annual produce applied to the first purpose amounts to half; then one-half the productive labourers of the country are all that are employed in the operations on which the permanent wealth of the country depends. The other half are occupied from year to year and from generation to generation in producing things which are consumed and disappear without return; and whatever this half consume is as completely lost, as to any permanent effect on the national resources, as if it were consumed unproductively. Suppose that this second half of the labouring population ceased to work, and that the government or their parishes maintained them in idleness for a whole year: the first half would suffice to produce, as they had done before, their own necessaries and the necessaries of the second half, and to keep the stock of materials and implements undiminished: the unproductive classes, indeed, would be either starved or obliged to produce their own subsistence, and the whole community would be reduced during a year to bare necessaries; but the sources of production would be unimpaired, and the next year there would not necessarily be a smaller produce than if no such interval of inactivity had occurred; while if the case had been reversed, if the first half of the labourers had suspended their accustomed occupations, and the second half had continued theirs, the country at the end of the twelvemonth would have been entirely impoverished.

It would be a great error to regret the large proportion of the annual produce, which in an opulent country goes to supply unproductive consumption. It would be to lament that the community has so much to spare from its necessities, for its pleasures and for all higher uses. This portion of the produce is the fund from which all the wants of the community, other than that of mere living, are provided for; the measure of its means of enjoyment, and of its power of accomplishing all purposes not productive. That so great a surplus should be available for such purposes, and that it should be applied to them, can only be a subject of congratulation. The things to be regretted,

and which are not incapable of being remedied, are the prodigious inequality with which this surplus is distributed, the little worth of the objects to which the greater part of it is devoted, and the large share which falls to the lot of persons who render no equivalent service in return.

CHAPTER IX.

TAXES.

J. S. MILL.

THE qualities desirable, economically speaking, in a system of taxation, have been embodied by Adam Smith in four maxims or principles, which, having been generally concurred in by subsequent writers, may be said to have become classical, and this chapter cannot be better commenced than by quoting them.

ADAM SMITH.

The private revenue of individuals, it has been shown in the first book of this inquiry, arises ultimately from three different sources: rent, profit, and wages. Every tax must finally be paid from some one or other of those three different sorts of revenue, or from all of them indifferently.

Before I enter upon the examination of particular taxes, it is necessary to premise the four following maxims with regard to taxes in general.

I. The subjects of every state ought to contribute towards the support of the government, as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this

maxim consists, what is called, the equality or inequality of taxation. Every tax, it must be observed, once for all, which falls finally upon one only of the three sorts of revenue above mentioned, is necessarily unequal, in so far as it does not affect the other two. In the following examination of different taxes I shall seldom take much further notice of this sort of inequality, but shall, in most cases confine my observations to that inequality, which is occasioned by a particular tax falling unequally even upon that particular sort of private revenue which is affected by it.

II. The tax which each individual is bound to pay, ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence and favours the corruption of an order of men who are naturally unpopular, even where they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty.

III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay, or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little, as

he has occasion to buy the goods. As he is at liberty, too, either to buy, or not to buy, as he pleases, it must be his fault if he ever suffers any considerable inconveniency from such taxes.

IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury, in the four following ways. First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. Secondly, it may obstruct the industry of the people, and discourage them from applying to certain branches of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy, some of the funds which might enable them more easily to do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have received from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. But the penalties of smuggling must rise in proportion to the temptation. The law, contrary to all the ordinary principles of justice, first creates the temptation, and then punishes those who yield to it; and it commonly enhances the punishment, too, in proportion to the very circumstance which ought certainly to alleviate it, the temptation to commit the crime. Fourthly, by subjecting the people to the frequent visits and the odious examination of the tax-gatherers it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is not, strictly speaking, expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it. It is in some

one or other of these four different ways that taxes are frequently so much more burdensome to the people than they are beneficial to the sovereign.

The evident justice and utility of the foregoing maxims have recommended them more or less to the attention of all nations. All nations have endeavoured, to the best of their judgment, to render their taxes as equal as they could contrive; as certain, as convenient to the contributor, both in the time and in the mode of payment, and in proportion to the revenue which they brought to the prince, as little burdensome to the people.

The rent of a house may be distinguished into two parts, of which the one may very probably be called the building rent; the other is commonly called the ground rent.

A tax upon ground-rents would not raise the rents of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist, and exacts the greatest rent which can be got for the use of his ground. More or less can be got for it according as the competitors happen to be richer or poorer, or can afford to gratify their fancy for a particular spot of ground at a greater or smaller expense. In every country the greatest number of rich competitors is in the capital, and it is there accordingly that the highest ground-rents are always to be found. As the wealth of those competitors would in no respect be increased by a tax upon ground-rents, they would not probably be disposed to pay more for the use of the ground. Whether the tax was to be advanced by the inhabitant, or by the owner of the ground, would be of little importance. The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground; so that the final payment of the tax would fall altogether upon the owner of the ground-rent. The ground-rents of uninhabited houses ought to pay no tax.

Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to

defray the expenses of the state, no discouragement will thereby be given to any sort of industry. The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground-rents and the ordinary rent of land are therefore, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them.

Ground-rents seem, in this respect, a more proper subject of peculiar taxation than even the ordinary rent of land. The ordinary rent of land is, in many cases, owing partly at least to the attention and good management of the landlord. A very heavy tax might discourage too much this attention and good management. Ground-rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign, which, by protecting the industry either of the whole people, or of the inhabitants of some particular place, enables them to pay so much more than its real value for the ground which they build their houses upon; or to make to its owner so much more than compensation for the loss which he might sustain by this use of it. Nothing can be more reasonable than that a fund which owes its existence to the good government of the state, should be taxed peculiarly, or should contribute something more than the greater part of other funds towards the support of that government.

The contrivers of the several taxes which in England have, at different times, been imposed upon houses, seem to have imagined that there was some great difficulty in ascertaining, with tolerable exactness, what was the real rent of every house. They have regulated their taxes, therefore, according to some more obvious circumstance, such as they had probably imagined would, in most cases, bear some proportion to the rent.

The first tax of this kind was hearth-money; or a tax of 2s. upon every hearth. In order to ascertain how many hearths were in the house, it was necessary that the tax-

gatherer should enter every room in it. This odious visit rendered the tax odious. Soon after the revolution, therefore, it was abolished as a badge of slavery.

The next tax of this kind was a tax of 2s. upon every dwelling-house inhabited. A house with ten windows to pay 4s. more. A house with twenty windows and upwards to pay 8s. This tax was afterwards so far altered, that houses with twenty windows, and with less than thirty, were ordered to pay 10s., and those with thirty windows and upwards to pay 20s. The number of windows can, in most cases, be counted from the outside, and, in all cases, without entering every room in the house. The visit of the tax-gatherer, therefore, was less offensive in this tax than in the hearth-money.

This tax was afterwards repealed, and in the room of it was established the window-tax, which has undergone, too, several alterations and augmentations. The window-tax, as it stands at present (January 1775), over and above the duty of 3s. upon every house in England, and of 1s. upon every house in Scotland, lays a duty upon every window, which, in England, augments gradually from 2d., the lowest rate, upon houses with not more than seven windows, to 2s., the highest rate, upon houses with twenty-five windows and upwards.

The principal objection to all such taxes is their inequality, an inequality of the worst kind, as they must frequently fall much heavier upon the poor than upon the rich. A house of £10 rent in a country town may sometimes have more windows than a house of £500 rent in London; and though the inhabitant of the former is likely to be a much poorer man than that of the latter, yet so far as his contribution is regulated by the window-tax, he must contribute more to the support of the state. Such taxes are directly contrary to the first of the four maxims mentioned. They do not seem to offend much against any of the other three.

The natural tendency of the window-tax, and of all other taxes upon houses, is to lower rents. The more a man pays

for the tax, the less, it is evident, he can afford to pay for the rent. Since the imposition of the window-tax, the rent of houses have, upon the whole, risen, more or less, in almost every town and village of Great Britain with which I am acquainted. Such has been almost everywhere the increase of the demand for houses, that it has raised the rents more than the window-tax could sink them; one of the many proofs of the great prosperity of the country, and of the increasing revenue of its inhabitants. Had it not been for the tax, rents would probably have risen still higher.

J. S. MILL.

The rent of a house consists of two parts, the ground-rent, and what Adam Smith calls the building-rent. The first is determined by the ordinary principles of rent. It is the remuneration given for the use of the portion of land occupied by the house and its appurtenances; and varies from a mere equivalent for the rent which the ground would afford in agriculture, to the monopoly rents paid for advantageous situations in populous thoroughfares. The rent of the house itself, as distinguished from the ground, is the equivalent given for the labour and capital expended on the building. The fact of its being received in quarterly or half-yearly payments makes no difference in the principles by which it is regulated. It comprises the ordinary profit on the builder's capital, and an annuity, sufficient at the current rate of interest, after paying for all repairs chargeable on the proprietor, to replace the original capital by the time the house is worn out, or by the expiration of the usual term of a building lease.

A tax of so much per cent. on the gross rent falls on both those portions alike. The more highly a house is rented, the more it pays to the tax, whether the quality of the situation or that of the house itself is the cause. The incidence, however, of these two portions of the tax must be considered separately.

As much of it as is a tax on building-rent must ultimately fall on the consumer, in other words the occupier; for as the profits of building are already not above the ordinary rate, they would, if the tax fell on the owner and not on the occupier, become lower than the profits of untaxed employments, and houses would not be built. It is probable, however, that for some time after the tax was first imposed, a great part of it would fall, not on the renter, but on the owner of the house. A large proportion of the consumers either could not afford, or would not choose, to pay their former rent with the tax in addition, but would content themselves with a lower scale of accommodation. Houses therefore would be for a time in excess of the demand. The consequence of such excess, in the case of most other articles, would be an almost immediate diminution of the supply; but so durable a commodity as houses does not rapidly diminish in amount. New buildings, indeed, of the class for which the demand had decreased, would cease to be erected, except for special reasons; but in the meantime the temporary superfluity would lower rents, and the consumers would obtain, perhaps, nearly the same accommodation as formerly, for the same aggregate payment, rent and tax together. By degrees, however, as the existing houses wore out, or as increase of population demanded a greater supply, rents would again rise; until it became profitable to recommence building, which would not be until the tax was wholly transferred to the occupier. In the end, therefore, the occupier bears that portion of a tax on rent, which falls on the payment made for the house itself, exclusively of the ground it stands on.

The case is partly different with the portion which is a tax on ground-rent. As taxes on rent, properly so called, fall on the landlord, a tax on ground-rent, one would suppose, must fall on the ground-landlord, at least after the expiration of the building-lease. It will not, however, fall wholly on the landlord, unless with the tax on ground-rent there is combined an equivalent tax on agricultural rent. The lowest rent of land let for building is very little above

the rent which the same ground would yield in agriculture; since it is reasonable to suppose that land, unless in case of exceptional circumstances, is let or sold for building as soon as it is decidedly worth more for that purpose than for cultivation. If, therefore, a tax were laid on ground-rents without being also laid on agricultural rents, it would, unless of trifling amount, reduce the return from the lowest ground-rents below the ordinary return from land, and would check further building quite as effectually as if it were a tax on building-rents, until either the increased demand of a growing population, or a diminution of supply by the ordinary causes of destruction, had raised the rent by a full equivalent for the tax. But whatever raises the lowest ground-rents, raises all others, since each exceeds the lowest by the market value of its peculiar advantages. If, therefore, the tax on ground-rents were a fixed sum per square foot, the more valuable situations paying no more than those least in request, this fixed payment would ultimately fall on the occupier. Suppose the lowest ground-rent to be £10 per acre, and the highest £1000, a tax of £1 per acre on ground-rents would ultimately raise the former to £11, and the latter consequently to £1001, since the difference of value between the two situations would be exactly what it was before: the annual pound, therefore, would be paid by the occupier. But a tax on ground-rent is supposed to be a portion of a house-tax, which is not a fixed payment, but a percentage on the rent. The cheapest site, therefore, being supposed, as before, to pay £1, the dearest would pay £100, of which only the £1 could be thrown upon the occupier, since the rent would still be only raised to £1001. Consequently, £99 of the £100 levied from the expensive site would fall on the ground-landlord. A house-tax thus requires to be considered in a double aspect, as a tax on all occupiers of houses, and a tax on ground-rents.

In the vast majority of houses, the ground-rent forms but a small proportion of the annual payment made for the house, and nearly all the tax falls on the occupier. It is only in exceptional cases, like that of the favourite situations

in large towns, that the predominant element in the rent of the house is the ground-rent; and among the very few kinds of income which are fit subjects for peculiar taxation, these ground-rents hold the principal place, being the most gigantic example extant of enormous accessions of riches acquired rapidly, and in many cases unexpectedly, by a few families, from the mere accident of their possessing certain tracts of land, without their having themselves aided in the acquisition by the smallest exertion, outlay, or risk. So far therefore as a house-tax falls on the ground-landlord, it is liable to no valid objection.

As incomes below a certain amount ought to be exempt from income-tax, so ought houses below a certain value from house-tax, on the universal principle of sparing from all taxation the absolute necessaries of healthful existence. In order that the occupiers of lodgings, as well as of houses, might benefit, as in justice they ought, by this exemption, it might be optional with the owners to have every portion of a house which is occupied by a separate tenant, valued and assessed separately, as is now usually the case with chambers.

Suppose that a commodity is capable of being made by two different processes; as a manufactured commodity may be produced either by hand or by steam-power; sugar may be made either from the sugar-cane or from beet-root, cattle fattened either on hay and green crops, or on oil-cake and the refuse of breweries. It is the interest of the community, that of the two methods, producers should adopt that which produces the best article at the lowest price. This being also the interest of the producers, unless protected against competition, and shielded from the penalties of indolence; the process most advantageous to the community is that which, if not interfered with by government, they ultimately find it to their advantage to adopt. Suppose, however, that a tax is laid on one of the processes, and no tax at all, or one of smaller amount, on the other. If the taxed process is the one which the producers would not have adopted, the measure is simply nugatory. But if the tax falls, as it is of

course intended to do, upon the one which they would have adopted, it creates an artificial motive for preferring the untaxed process, though the inferior of the two. If, therefore, it has any effect at all, it causes the commodity to be produced of worse quality, or at a greater expense of labour; it causes so much of the labour of the community to be wasted, and the capital employed in supporting and remunerating that labour to be expended as uselessly as if it were spent in hiring men to dig holes and fill them up again. This waste of labour and capital constitutes an addition to the cost of production of the commodity, which raises its value and price in a corresponding ratio, and thus the owners of the capital are indemnified. The loss falls on the consumers; though the capital of the country is also eventually diminished, by the diminution of their means of saving, and in some degree, of their inducements to save.

The kind of tax, therefore, which comes under the general denomination of a discriminating duty, transgresses the rule that taxes should take as little as possible from the taxpayer beyond what they bring into the treasury of the state. A discriminating duty makes the consumer pay two distinct taxes, only one of which is paid to the government, and that frequently the less onerous of the two.

One of the commonest cases of discriminating duties is that of a tax on the importation of a commodity capable of being produced at home, unaccompanied by an equivalent tax on the home production. A commodity is never permanently imported, unless it can be obtained from abroad at a smaller cost of labour and capital on the whole than is necessary for producing it. If, therefore, by a duty on the importation, it is rendered cheaper to produce the article than to import it, an extra quantity of labour and capital is expended, without any extra result. The labour is useless, and the capital is spent in paying people for laboriously doing nothing. All custom duties which operate as an encouragement to the home production of the taxed article are thus an eminently wasteful mode of raising a revenue.

This character belongs in a peculiar degree to custom

duties on the produce of land, unless countervailed by excise duties on the home production. Such taxes bring less into the public treasury, compared with what they take from the consumers, than any other imposts to which civilised nations are usually subject. If the wheat produced in a country is twenty millions of quarters, and the consumption twenty-one millions, a million being annually imported, and if on this million a duty is laid which raises the price ten shillings per quarter, the price which is raised is not that of the million only, but of the whole twenty-one millions. Taking the most favourable, but extremely improbable supposition, that the importation is not at all checked, nor the home production enlarged, the state gains a revenue of only half a million, while the consumers are taxed ten millions and a half, the ten millions being a contribution to the home growers, who are forced by competition to resign it all to the landlords. The consumer thus pays to the owners of land an additional tax, equal to twenty times that which he pays to the state. Let us now suppose that the tax really checks importation. Suppose importation stopped altogether in ordinary years, it being found that the million of quarters can be obtained, by a more elaborate cultivation, or by breaking up inferior land, at a less advance than ten shillings upon the previous price—say, for instance, five shillings a quarter. The revenue now obtains nothing, except from the extraordinary imports which may happen to take place in a season of scarcity. But the consumers pay every year a tax of five shillings on the whole twenty-one millions of quarters, amounting to 5¼ millions sterling. Of this the odd £250,000 goes to compensate the growers of the last million of quarters for the labour and capital wasted under the compulsion of the law. The remaining five millions go to enrich the landlords as before.

What we have said of duties on importation generally, is equally applicable to discriminating duties which favour importation from one place or in one particular manner, in contradistinction to others; such as the preference given

to the produce of a colony, or of a country with which there is a commercial treaty, or the higher duties formerly imposed by our navigation laws on goods imported in other than British shipping. Whatever else may be alleged in favour of such distinctions, whenever they are not nugatory, they are economically wasteful. They induce a resort to a more costly mode of obtaining a commodity, in lieu of one less costly, and thus cause a portion of the labour which the country employs in providing itself with foreign commodities, to be sacrificed without return.

JAMES MILL.

Although the consumption by government, as far as really necessary, is of the highest importance, it is not, unless very indirectly, subservient to production. That which is consumed by government, instead of being consumed as capital, and replaced by a produce, is consumed and produces nothing. This consumption is, indeed, the cause of that protection, under which all production has taken place; but if other things were not consumed in a way different from that in which things are consumed by government, there would be no produce. These are reasons for placing the expenditure of government under the head of unproductive consumption.

The revenue of government must be derived from rent, from profits of stock, or from wages of labour.

It is sufficiently obvious that the share of the rent of land, which may be taken to defray the expenses of government, does not affect the industry of the country. The cultivation of the land depends upon the capitalist, who devotes himself to that occupation when it affords him the ordinary profits of stock. To him it is a matter of perfect indifference whether he pays the surplus, in the shape of rent, to an individual proprietor, or, in that of revenue, to a government collector.

In Europe, at one period, the greater part of at least the ordinary expenses of the sovereign were defrayed by land

which he held as a proprietor; while the expense of his military operations was chiefly defrayed by his barons, to whom a property in certain portions of the land had been granted on that express condition. In those times, the whole expense of the government, with some trifling exception, was therefore defrayed from the rent of land.

If a body of people were to migrate into a new country, and land had not yet become private property, there would be this reason for considering the rent of land as a source peculiarly adapted to supply the exigencies of the government: that industry would not by that means sustain the smallest depression; and that the expense of the government would be defrayed without imposing any burden upon any individual. The owners of capital would enjoy its profits; the class of labourers would enjoy their wages, without any deduction whatsoever; and every man would employ his capital in the way which was really most advantageous, without receiving any inducement, by the mischievous operation of a tax, to remove it from a channel in which it was more, to one in which it would be less productive to the nation. There is, therefore, a peculiar advantage in reserving the rent of land as a fund for supplying the exigencies of the state.

It is certain that as population increases, and as capital is applied with less and less productive power to the land, a greater and a greater share of the whole of the net produce of the country accrues as rent, while the profits of stock proportionately decrease. This continual increase, arising from the circumstances of the community, and from nothing in which the landholders themselves have any peculiar share, does seem a fund no less peculiarly fitted for appropriation to the purposes of the state than the whole of the rent in a country where land had never been appropriated. While the original rent of the landholder, that upon which alone all his arrangements, with respect both to himself and his family, must be framed, is secured from any peculiar burden, he can have no reason to complain should a new source of income, which cost him nothing, be appropriated

to the service of the state; and if so, it evidently makes no difference to the merits of the case, whether this new source is found upon the land or found anywhere else.

The case of profits is not only different, but the reverse. Instead of rising in the progress of society, they decrease. Land exists by the gift of nature; capital is the product of human industry. Land is originally not the property of any man; capital always is. The profits of stock must be secured to the owner to afford a motive for its preservation and augmentation. For the preservation of the land, or the augmentation of its produce, it is not of the least importance to whom the rent is consigned. Profits are in reality the fund out of which rent is always taken, and every increase of rent, in the progress of society, is a deduction from profits.

A direct tax on profits of stock offers no question of any difficulty. It would fall entirely upon the owners of capital, and could not be shifted upon any other portion of the community.

As all capitalists would be affected equally, there would be no motive to the man engaged in any one species of production, to remove his capital to any other. If he paid a certain portion of his profits, derived from the business in which he was already engaged, he would pay an equal portion derived from any other business to which he could resort. There would not, therefore, in consequence of such a tax, be any shifting of capital from one species of employment to another. The same quantity of every species of goods would be produced, if there was the same demand for them. That there would, on the whole, be the same aggregate of demand, is also immediately apparent. The same capital is supposed to be employed in the business of production; and if part of what accrued to the capitalist was taken from him, lessening to that extent his means of purchasing, it would be transferred to the government, whose power of purchasing would be thence to the same degree increased.

There would, therefore, be the same demand, and the

same supply: there would also be the same quantity of money, and the same rapidity of circulation; and therefore the value of money would remain the same as before.

If wages are already at the lowest point to which they can be reduced—that is, just sufficient to keep up the number of labourers, and no more; the state of wages which seems to have been contemplated by Mr. Ricardo, throughout his disquisitions on political economy, and which the tendency of population to increase faster than capital, undoubtedly leads us to regard as the natural state; no tax can fall upon the labourer; and if any tax is imposed upon wages, it is easy to trace in what way it must produce a corresponding rise of wages. If wages are as low as is consistent with the preservation of the number of labourers, take anything away from those wages, and the number of labourers must be reduced. The reduction of the number of labourers must be followed by a rise of wages, and this process must continue till wages rise sufficiently high to be consistent with the preservation of the number of labourers; in other words, just as high as they were before the tax was imposed.

If wages are not at this lowest rate; if they are sufficiently high to afford the labourers something more than what is necessary to keep up their numbers, a surplus which may be retrenched without a diminution of their numbers, they may, to this extent, be made subject to taxation.

Wages, like the price of any other commodity, rise or fall, in proportion as the demand for labour rises or falls compared with the supply.

In the case of wages so low as barely to keep up the number of labourers, wages must rise to the amount of any tax imposed upon them, because there is a continued diminution of the supply of labourers till this rise is effected.

In the case of wages above this level, there is no necessary reduction of the number of labourers in consequence of a tax imposed upon wages. There is no alteration, therefore, in the state of supply. From this it follows, that if there is not an increase of demand for labourers, in consequence of such a tax, there can be no rise of wages; and if there be

no rise of wages, the tax must fall upon the labourers. The solution, therefore, of the question, whether a tax upon wages falls upon the labourer, depends upon the inquiry, whether there is, or is not, such increase of demand.

The effect of a tax upon wages, elevated as in the case under supposition, is, to transfer a certain power of commanding the produce of labour and capital from the class of labourers to the government. With the amount of the tax, before it was taken from the labourers, they presented a demand for so much of the operations of fixed capital, so much of those of immediate labour. Where the same amount is transferred to the government, the government presents in like manner a demand for so much of the operations of fixed capital, so much of those of immediate labour. If the proportions of the demand for the produce of fixed capital and immediate labour were the same in both cases, there would be no alteration in the demand for labour, in consequence of the tax, and the whole of it would fall upon the labourers. If the government presented a greater demand for the produce of immediate labour, less for that of fixed capital, than was presented by the labourers, there would so far be an increase of demand for labour, and a rise of wages, which would so far be a compensation to the labourer for the tax, at the expense, however, of profits, and with an uncompensated loss to the value of all the produce which the superseded capital would have yielded.

Properly speaking, however, this rise of wages is not an effect of the tax upon wages. It is the effect of a very different cause; of a supposed peculiarity in the nature of the government expenditure.

The argument may be shortly stated thus. Before the tax was imposed there was a certain demand for labour. This arose, in part, from the funds of the landlord, in part from those of the capitalist, and in part from those of the labourer. After the tax the two former remain the same. But the demand arising from the funds of the labourer is diminished. If this loss of demand were not compensated, the labourer would sustain two evils in consequence of the

tax. He would pay the tax; and his wages would fall. The second of these evils he does not sustain, because the diminution of demand on the part of the labourers is compensated. The increase of demand on the part of government is exactly equal to the diminution of the demand on the part of the labourers. This prevents wages from falling, but it does no more. It yields nothing in compensation for the tax.

M'CULLOCH.

The incomplete and inaccurate view that Dr. Smith has given of the incidence and operation of taxes on the rent of land results chiefly from his having made no distinction between their operation on the *net*, or real rent of land, or the sum received by the landlords for the use of its natural and inherent powers, and their operation on the *gross* rent of land, or the sum received by the landlords as well for the use of the capital laid out on building, draining, and other improvements, as for the use of the soil. Dr. Smith held that all taxes laid on the rent of land, taking the term in its popular and broadest sense, fell wholly on the landlords. But this is true only of taxes proportioned to the *net*, and not to the gross rent. The sum paid to the landlord for the use of the natural powers of the soil may be entirely swept away by a tax, without his having it in his power to throw any portion of the burden on any one else; but in so far as the rent of a farm consists of the interest of capital expended on improvements or buildings, it could not be taken from the landlord by a tax on rent.

I. With respect, in the first place, to the incidence of a tax laid on the *net* rent of land: rent, considered in this point of view, consists, as has been already seen, of a surplus which is over and above the cost of producing that portion of the raw produce of a country which determines the price of all the rest. It might, therefore, it is clear, be entirely carried off by a tax without in the slightest degree affecting the interests of any other class, except that of landlords.

The heaviest tax on this portion of rent would neither raise the price of raw produce, nor operate as any discouragement to that species of cultivation and those improvements that are carried on by farmers. That it could not raise the price of raw produce is obvious; for nothing can affect its price which does not affect the cost of its production. But rent, as has now been stated, is a surplus which is extrinsic to and independent of that cost; nor can it, indeed, have any existence until the farmer has been fully indemnified for the expense he has been put to in bringing his produce to market, and has obtained the common and ordinary rate of profit on the capital he employs. The prices of all sorts of farm produce would, consequently, continue unaffected though a tax were imposed absorbing all the *net* rent of a farm. Government would then occupy the place which the landlords now hold; and if its agents were as indulgent in the treatment of tenants, it could make little difference to the latter whether they paid their rents to a receiver appointed by government or to a landlord.

II. It would not, however, be possible for a government, even if it were disposed to make the attempt, to abstract by means of direct taxes the total *gross* rent of the landlords, or the sum that is paid them under the name of rent, not only for the use of the natural and inherent powers of the soil, but also for the use of buildings and other improvements. To whatever extent the rent paid for a farm may be made up of the interest of the capital laid out upon it, to the same extent would a tax upon that rent operate to raise the price of raw produce; and would, in consequence, fall ultimately on the consumer. In so far as the gross rental of a landlord consists of the sum paid him for the mere use of land, it results not from his being a producer, but from his having obtained the ownership of the land; but it is otherwise with the portion of the gross rental paid him for the use of the capital laid out on improvements. This results from his being a producer, from his having capital invested in agricultural meliorations; and it is plain that a tax affecting the profits of this capital must necessarily affect the cost of

producing raw produce. Suppose, for example, that the gross rental of a farm is £500 a year, and that the half of this sum, or £250, is really paid as interest of capital laid out on its improvement. If, under such circumstances, a tax of 10 per cent. were laid on rent, only £25 of such tax would be permanently paid by the landlord: in the first instance, no doubt, the whole £50 would be paid by him; but £25 of this payment would, plainly, be a deduction, not from rent properly so called, or from the sum paid to the landlord for the use of the soil, but from the profits of the capital laid out on improvements: and the landlords, being thus placed in a comparatively unfavourable situation, would begin to withdraw their capital from the soil; and no more would be expended upon it, until the price of corn and other raw produce had been raised, by means of the gradual diminution of its quantity, so as to place the landlords in the same situation as other producers; that is, until they obtained the common and ordinary rate of profit from the capital laid out on improvements.

It appears, therefore, that although it is possible to draw into the coffers of the treasury, by an exclusive tax, all that portion of the rent of land which is paid for the use of the natural and inherent powers of the soil, the other portion, which is paid on account of the improvements made on it, could not be affected by an exclusive tax; and could, speaking generally, only be taxed to the same extent that the profits of capital employed in other departments are taxed.

Dr. Smith's opinions with respect to the incidence and effect of taxes on the profit of the capital employed in different businesses seem to be still more erroneous than his opinions with respect to the incidence and effect of taxes on rent. He supposes that whether the tax be made to affect the profits of the capital invested in every different employment, or be confined to a few employments, it will in no case be permanently paid by those on whom it falls in the first instance; that the producers and dealers will, in all cases, raise the price of their goods proportionally to the tax; so that, speaking generally, its payment will

never fall upon them, but always on the consumer. A brief discussion only will be required to show the fallacy of this statement.

In order to give additional clearness to what I have to say on the subject, I shall divide my remarks upon it into two parts: in the first place, I shall suppose that the tax is laid equally on all sorts of profits, or, which is the same thing, on the profits derived from the capital employed in every sort of business; and, in the second place, I shall suppose that the tax is not universal, but that it is made only to apply to the profits derived from the capital invested in one or a few branches of industry.

Supposing, then, in the *first* place, that the tax is universal, it is obvious that it must fall wholly on profits, and that it can neither affect the prices of commodities nor the distribution of capital. I showed, in the note on the effects of variations in the rates of wages and profits on the value of commodities, that whatever affected different classes of producers to the same extent could neither change their relative condition nor the exchangeable value of the commodities produced by them. Now this, it is evident, must be the case with the tax in question. A linen or cotton manufacturer charged with a tax of five or ten per cent. on his profits would not be, in any respect, in a worse situation than any of his neighbours who are all assumed to be taxed to the same extent. It is, therefore, quite plain that no individual could, under these circumstances, expect to evade the burden of such a tax by changing his business; and it could not, consequently, occasion any transference of capital from one employment to another. As the tax does not increase the quantity of labour required for the production of commodities, it could not increase their *real* value; neither could it occasion any variation in the supply of commodities, or in the demand for them; for, as the tax does not fall on capital but on profits, the means of producing would not be impaired by its imposition. It is true, indeed, that the means of pur-

chasing possessed by those who live on profits would be diminished by the imposition of the tax; but, as the means of purchasing possessed by the government, or its agents who receive the tax, would be augmented in the exact proportion that those of the contributors were reduced, the aggregate demand of the society would continue the same; and hence, as the tax could neither lessen the quantity of capital in the country, nor affect its distribution, nor lessen the power of purchasing its produce, it is obvious it could not, supposing the value of money to continue constant, occasion any variation in the prices of commodities.

The immediate effect of an equal and universal tax on profits would, therefore, be to sink them in the same proportion. And as the power to accumulate capital, and consequently to feed and employ an additional number of people, must always be in direct proportion to the rate of profit, it follows that the tendency, and, when they are carried to such a height as to prevent them from being balanced by increased exertion and economy, the ultimate and necessary effect of all such taxes is, to check the accumulation of capital and the progress of population.

But supposing, in the *second* place, that the tax is not universal, and that it is laid only on the profits of the capital employed in one or a few businesses, it would have a different effect. In this case it would *raise* prices, and would not, therefore, fall on the capitalists, except in so far as they were themselves consumers of their own produce. Suppose, for example, that a tax of ten per cent. is laid exclusively on the profits of the hatters: the least consideration will serve to convince every one that such tax must make an equivalent addition to the price of hats; for, if it did not, the hatters would gain less profit than is gained by those engaged in other businesses, and they would, in consequence, have an immediate inducement to withdraw from their employment; nor can it be doubted that they would continue so to withdraw, until by diminishing the supply of hats they had raised their price to such a height as would afford them the common and ordinary rate of profit over and

above the tax. For the same reason, an exclusive tax on the profits of the clothier, the farmer, the shoemaker, etc., would make a proportional addition to the price of their products. In these cases the producers have the power to raise prices, and, consequently, to throw the burden of the tax on the consumer, because they have the power to withdraw from those employments in which profits are taxed, and to engage in those in which they are not taxed. But when the profits derived from the capital employed in every different business are equally taxed, the capitalists are deprived of this resource, and have no means either of raising prices or of evading the tax.

Dr. Smith lays it down, in his article on taxes on the wages of labour, that "while the demand for labour and the price of provisions remain the same, a direct tax upon the wages of labour can have no other effect than to raise them somewhat higher than the tax." And he further supposes that to whatever extent the wages of manufacturing and commercial labour may be increased by a tax, the burden will ultimately fall, not on the manufacturers and merchants, but on the consumers, by an increase in the price of commodities; and that to whatever extent the tax may raise the wages of agricultural labour, it will really fall, not on the farmer or the consumer, but on the landlord.

None of these conclusions is correct. The immediate effect of a tax on wages on their rate, does not depend on the circumstance of the demand for labour continuing stationary, but on the mode in which the produce of the tax is expended. And the principles established in the previous notes show that when wages are raised either in consequence of their being taxed, or by any other cause, that rise does not go to raise the price of commodities or to lower rent, but really forms a deduction from the profits of the capitalists and other employers of labour.

Suppose, in order to illustrate the operation of such taxes, that a tax of 10 per cent. is imposed on the wages of labour, or that every labourer in Great Britain is made to

hand over 10 per cent. of his earnings to collectors appointed to receive it. Now, it is obvious that as no part of this tax has been taken from the capitalists, it cannot in any degree or way diminish their means of employing labour. The effect then of such a tax must plainly depend on the mode in which it is expended by government. If government expend the produce of the tax in paying additional troops or sailors, it is easy to see that it can be productive of no immediate injury to the labourer; for the agents of government would, in such a case, enter the market for labour with means of purchasing which had not been derived from the capitalists, but from the labourers themselves, and in consequence of this greater competition, wages would be raised in exact proportion to the additional means in the hands of government, or, in other words, to the amount of the tax. An example will render this apparent. Suppose there are 10,000 labourers in a country, and that the wages paid them amount to £200,000 a year; and suppose further that government wish to increase the military force, and that to get the means of doing so a tax of 10 per cent., or of £20,000, is laid on wages. The obvious and unavoidable consequences of this proceeding will be, that next year the capitalists will come into the market for labour with the £200,000 they had previously employed in the payment of wages, while the agents of government will come into the same market with the £20,000 they have derived from the tax on wages; so that, between the two, wages will be raised in exact proportion to the tax.

But if the tax were laid out, not, as has been now supposed, in paying the wages of additional troops, but in increasing the pay of the troops already embodied, or of the other functionaries employed by government, it would not have the same effect. In this case there would be no additional demand for labour. The individuals who had received the tax would, indeed, have a greater demand for the produce of labour; but their greater demand being no more than equivalent to the diminished demand of the

labourers from whom the tax had been derived, it could make no real addition to the total aggregate demand of the country. And thus it appears that when the produce of a tax on wages is employed to pay the wages of fresh individuals to be taken into the service of government, it has, *by taking so much labour out of the market*, the effect to raise the price of the remainder in proportion to its amount. But when the produce of a tax on wages is employed to increase the wages of public functionaries, or troops already embodied, it does not lessen the quantity of labour in the market, and must in consequence fall, in the first instance, wholly on the labourers.

But, even in this last case, a tax on wages might not, and it is most probable would not, continue to be paid entirely out of wages. When such a tax was first imposed it could hardly fail, by lessening the comforts, and perhaps also the necessaries of the labourer, to give a serious check to the progress of population, as well by retarding the period of marriage as by increasing the rate of mortality; and in consequence of the diminution of labourers arising from these causes, wages might be raised so as to throw the tax either wholly or partially on the capitalists.

But it must at the same time be observed, that there are very considerable obstacles to a rise of wages in the way now pointed out. In whatever mode the rise may be brought about, whether it be by a diminution in the number of marriages, or by an increase in the rate of mortality, or both, it is never the work of an instant. A considerable time is always required before it can be effected; and there is, in consequence, an obvious risk lest the habits of the labouring classes should be degraded in the interim. When wages are considerably reduced, whether by a tax or otherwise, the poor are obliged to economise; and should the coarse and scanty fare that is thus, in the first instance, forced upon them by necessity, become congenial from habit, no check would be given to population; the rate of wages would be permanently reduced, and the condition of the great mass of society changed in so far for the worse.

But, as whatever has any tendency to degrade the habits of the bulk of the people, or to reconcile them to a lower standard of comfort, ought to be most carefully guarded against, I should be disposed to consider every tax on wages, or on the indispensable necessaries consumed by the labourer, as decidedly objectionable, unless the produce of the tax were expended in employing additional troops, or in removing labour from the market. And even in the cases in which taxes on wages are so expended, it seems very questionable whether they ought to be resorted to. It would be exceedingly difficult to convince any considerable number of labourers that the produce of a tax on wages, however it might be laid out, ever reverted to them. They would see the immediate sacrifice they were called upon to make, but they would see no more. The rise of wages would be ascribed to causes which the tax would not be considered as promoting, but as counteracting. Such taxes would, therefore, be in no ordinary degree unpopular. And, besides, it is clear that if they are expended so as to raise wages, and under any other circumstances they ought on no account to be imposed, they may as well be laid *directly* on the capitalists. If the capitalists do not pay such taxes at first, they must pay them at second hand. And though their effects were in other respects somewhat different, a prudent administration would rather choose to lay a direct tax on the employers of labour than to tax them indirectly, by laying it in the first instance on their labourers. It is true that this direct mode of taxing capitalists is productive of no real advantage to the labourer; but neither is it productive of any real injury to his employer; and the circumstance of its tending to lessen popular irritation, and to facilitate the imposition of the tax, is sufficient to cause it to be preferred.

It is obvious, from what has just been stated, that the real injury which a tax on wages, expended in the way I have supposed, inflicts on the labourers, does not consist in its immediate but in its remote effects. By falling on profits its direct tendency is to diminish the power

to accumulate capital; and when carried so far as to have that effect, it cannot fail, unless the stimulus previously given to population be at the same time diminished by the more powerful operation of the principle of moral restraint, to depress the condition of the labourers, and lower the natural rate of wages.

CHAPTER X.

MONEY.

ADAM SMITH.

THOUGH the weekly or yearly revenue of all the different inhabitants of any country may be paid to them in money, their real riches, however, the real weekly or yearly revenue of all of them taken together, must always be great or small in proportion to the quantity of consumable goods which they can all of them purchase with this money. The whole revenue of all of them taken together is evidently not equal to both the money and the consumable goods, but only to one or other of those two values, and to the latter more properly than to the former.

Though we frequently, therefore, express a person's revenue by the metal pieces which are annually paid to him, it is because the amount of those pieces regulates the extent of his power of purchasing, or the value of the goods which he can annually afford to consume.

We still consider his revenue as consisting in this power of purchasing, or consuming, and not in the pieces which convey it.

But if this is sufficiently evident even with regard to an individual, it is still more so with regard to a society. The amount of the metal pieces which are annually paid to an individual is often precisely equal to his revenue, and is upon that account the shortest and best expression of its value. But the amount of the metal pieces which circulate in a society can never be equal to the revenue of all its members. As the same guinea which

pays the weekly pension of one man to-day may pay that of another to-morrow, and that of a third the day thereafter, the amount of the metal pieces which annually circulate in any country must always be of much less value than the whole money pensions annually paid with them. But the power of purchasing, or the goods which can successively be bought with the whole of those money pensions as they are successively paid, must always be precisely of the same value with those pensions; as must be the revenue of the different persons to whom they are paid. That revenue cannot consist in those metal pieces, of which the amount is so much inferior to its value, but in the power of purchasing, in the goods which can successively be bought with them as they circulate from hand to hand. Money, therefore, the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part, and a very valuable part, of the capital, makes no part of the revenue of the society to which it belongs; and though the metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the revenue which properly belongs to him, they make themselves no part of that revenue.

It is sufficiently obvious, and it has partly, too, been explained already, in what manner every saving in the expense of supporting the fixed capital is an improvement of the net revenue of the society. The whole capital of the undertaker of every work is necessarily divided betwixt his fixed and his circulating capital. While his whole capital remains the same, the smaller the one part, the greater must necessarily be the other. It is the circulating capital which furnishes the materials and wages of labour, and puts industry into motion. Every saving, therefore, in the expense of maintaining the fixed capital, which does not diminish the productive powers of labour, must increase the fund which puts industry into motion, and consequently the annual produce of land and labour, the real revenue of every society.

The substitution of paper in the room of gold and silver

money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one. But in what manner this operation is performed, and in what manner it tends to increase either the gross or the net revenue of the society, is not altogether so obvious, and may therefore require some further explanation. There are several different sorts of paper money; but the circulating notes of banks and bankers are the species which is best known, and which seems best adapted for this purpose. When the people of any particular country have such confidence in the fortune, probity, and prudence of a particular banker, as to believe that he is always ready to pay upon demand such of his promissory notes as are likely to be at any time presented to him, those notes come to have the same currency as gold and silver money, from the confidence that such money can at any time be had for them.

A particular banker lends among his customers his own promissory notes to the extent, we shall suppose, of £100,000. As those notes serve all the purposes of money, his debtors pay him the same interest as if he had lent them so much money. This interest is the source of his gain. Though some of those notes are continually coming back upon him for payment, part of them continue to circulate for months and years together. Though he has generally in circulation, therefore, notes to the extent of £100,000, £20,000 in gold and silver may, frequently, be a sufficient provision for answering occasional demands. By this operation, therefore, £20,000 in gold and silver perform all the functions which £100,000 could otherwise have performed. The same exchanges may be made, the same quantity of consumable goods may be circulated and distributed to their proper consumers, by means of his promissory notes, to the value of £100,000, as by an equal value of gold and silver money. £80,000 of gold and silver, therefore, can in this manner be spared from the circulation

of the country; and if different operations of the same kind should, at the same time, be carried on by many different banks and bankers, the whole circulation may thus be conducted with a fifth part only of the gold and silver which would otherwise have been requisite. Let us suppose, for example, that the whole circulating money of some particular country amounted, at a particular time, to £1,000,000, that sum being then sufficient for circulating the whole annual produce of their land and labour. Let us suppose, too, that some time thereafter different banks and bankers issued promissory notes, payable to the bearer, to the extent of £1,000,000, reserving in their different coffers £200,000 for answering occasional demands. There would remain, therefore, in circulation, £800,000 in gold and silver, and a million of bank-notes, or £1,800,000 of paper and money together. But the annual produce of the land and labour of the country had before required only one million to circulate and distribute it to its proper customers, and that annual produce cannot be immediately augmented by those operations of banking. One million, therefore, will be sufficient to circulate it after them. The goods to be bought and sold being precisely the same as before, the same quantity of money will be sufficient for buying and selling them. The channel of circulation, if I may be allowed such an expression, will remain precisely the same as before. One million we have supposed sufficient to fill that channel. Whatever, therefore, is poured into it beyond this sum cannot run in it, but must overflow. One million eight hundred thousand pounds are poured into it. Eight hundred thousand pounds, therefore, must overflow, that sum being over and above what can be employed in the circulation of the country. But though this sum cannot be employed at home, it is too valuable to be allowed to lie idle. It will, therefore, be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad, because at a distance from the banks which issue it, and from the country in which payment

of it can be exacted by law, it will not be received in common payments. Gold and silver, therefore, to the amount of eight hundred thousand pounds will be sent abroad, and the channel of home circulation will remain filled with a million of paper, instead of the million of those metals which filled it before.

But though so great a quantity of gold and silver is thus sent abroad, we must not imagine that it is sent abroad for nothing, or that its proprietors make a present of it to foreign nations. They will exchange it for foreign goods of some kind or another, in order to supply the consumption either of some other foreign country or of their own.

If they employ it in purchasing goods in one foreign country in order to supply the consumption of another, or in what is called the carrying trade, whatever profit they make will be in addition to the net revenue of their own country. It is like a new fund, created for carrying on a new trade; domestic business being now transacted by the medium of paper, and the gold and silver being converted into a fund for this new trade.

When we compute the quantity of industry which the circulating capital of any society can employ, we must always have regard to those parts of it only which consist in provisions, materials, and finished work: the other, which consists in money, and which serves only to circulate those three, must always be deducted. In order to put industry into motion, three things are requisite: materials to work upon, tools to work with, and the wages or recompense for the sake of which the work is done. Money is neither a material to work upon, nor a tool to work with; and though the wages of the workman are commonly paid to him in money, his real revenue, like that of all other men, consists, not in the money, but in the money's worth; not in the metal pieces, but in what can be got for them.

The quantity of industry which any capital can employ must, evidently, be equal to the number of workmen whom it can supply with materials, tools, and a maintenance suitable to the nature of the work. Money may be requisite for

purchasing the materials and tools of the work, as well as the maintenance of the workmen. But the quantity of industry which the whole capital can employ is certainly not equal both to the money which purchases and to the materials, tools, and maintenance which are purchased with it; but only to one or other of those two values, and to the latter value more properly than to the former.

When paper is substituted in the room of gold and silver money, the quantity of the materials, tools, and maintenance which the whole circulating capital can supply, can be increased by the whole value of gold and silver which used to be employed in purchasing them. The whole value of the great wheel of circulation and distribution is added to the goods which are circulated and distributed by means of it. The operation, in some measure, resembles that of the undertaker of some great work, who, in consequence of some improvement in mechanics, takes down his old machinery, and adds the difference between its price and that of the new to his circulating capital to the fund from which he furnishes materials for wages to his workmen.

What is the proportion which the circulating money of any country bears to the whole value of the annual produce circulated by means of it, it is, perhaps, impossible to determine. It has been computed by different authors at a fifth, at a tenth, at a twentieth, and at a thirtieth part of that value. But how small soever the proportion which the circulating money may bear to the whole value of the annual produce, as but a part, and frequently but a small part, of that produce is ever destined for the maintenance of industry, it must always bear a very considerable proportion to that part. When, therefore, by the substitution of paper, the gold and silver necessary for circulation is reduced to, perhaps, a fifth part of the former quantity, if the value of only the greater part of the other four-fifths be added to the funds which are destined for the maintenance of industry, it must make a very considerable addition to the quantity of that industry, and, consequently, to the value of the annual produce of land and labour.

The whole paper money of every kind which can easily circulate in any country never can exceed the value of the gold and silver of which it supplies the place, or which (the commerce being supposed the same) would circulate there, if there was no paper money. If twenty-shilling notes, for example, are the lowest paper money current in Scotland, the whole of that currency which can easily circulate there cannot exceed the sum of gold and silver which would be necessary for transacting the annual exchanges of twenty shillings value and upwards usually transacted within that country. Should the circulating paper at any time exceed that sum, as the excess could neither be sent abroad nor be employed in the circulation of the country, it must immediately return upon the banks to be exchanged for gold and silver. Many people would immediately perceive that they had more of this paper than was necessary for transacting their business at home, and as they could not send it abroad, they would immediately demand payment of it from the banks. When this superfluous paper was converted into gold and silver, they could easily find a use for it by sending it abroad; but they could find none while it remained in the shape of paper. There would be a run upon the banks to the whole extent of this superfluous paper, and if they showed any difficulty or backwardness in payment, to a much greater extent; the alarm, which this would occasion, necessarily increasing the run upon the banks.

JAMES MILL.

Money is made under two sets of circumstances: either when government leaves the increase or diminution of it free, or when it endeavours to control the quantity, making it great or small as it pleases.

When the increase or diminution of money is left free, government opens the mint to the public at large, making bullion into coins for as many as require it.

It is evident that individuals possessed of bullion will

desire to convert it into coins only when it is their interest to do so; that is, when their bullion, converted into coins, will be more valuable to them than in the shape of bullion.

This can only happen when the coins are peculiarly valuable, and when the same quantity of metal, in the state of coin, will exchange for more than in the state of bullion.

As the value of the coins depends upon the quantity of them, it is only when they are small in quantity that they have this value: it is the interest of individuals, when coins are thus high in value, to carry bullion to be coined; but by every addition to the number of the coins, the value of them is diminished, and at last the value of the metal in the coins, above the bullion, becomes too small to afford a motive for carrying bullion to be coined. If the quantity of money, therefore, should at any time be so small as to increase its value above that of the metal of which it is made, the interest of individuals operates immediately, in a state of freedom, to augment the quantity.

It is also possible for the quantity of money to be so large as to reduce the value of the metal in the coin below its value in the state of bullion; in that case, the interest of individuals operates immediately to reduce the quantity. If a man has possessed himself of a quantity of the coins, containing, we shall say, an ounce of the metal, and if these coins are of less value than the metal in bullion, he has a direct motive to melt the coins, and convert them into bullion; and this motive continues to operate till, by the reduction of the quantity of money, the value of the metal in that state is so nearly the same with its value in bullion, as not to afford a motive for melting.

Whenever the coining of money, therefore, is free, its quantity is regulated by the value of the metal, it being the interest of individuals to increase or diminish the quantity, in proportion as the value of the metal in coins is greater or less than its value in bullion.

But if the quantity of money is determined by the value

of the metal, it is still necessary to inquire what it is which determines the value of the metal. That is a question, however, which may be considered as already solved. Gold and silver are in reality commodities. They are commodities for the attainment of which labour and capital must be employed. It is cost of production, therefore, which determines the value of these, as of other ordinary productions.

We have next to examine the effects which take place by the attempts of government to control the increase or diminution of money, and to fix the quantity as it pleases. When it endeavours to keep the quantity of money less than it would be, if things were left in freedom, it raises the value of the metal in the coin, and renders it the interest of everybody, who can, to convert his bullion into money. By supposition, the government will not so convert it. He must, therefore, have recourse to private coining. This the government must, if it perseveres, prevent by punishment. On the other hand, were it the object of government to keep the quantity of money greater than it would be if left in freedom, it would reduce the value of the metal in money below its value in bullion, and make it the interest of everybody to melt the coins. This, also, the government would have only one expedient for preventing—namely, punishment.

But the prospect of punishment will prevail over the prospect of profit only if the profit is small. It is well known that, where the temptation is considerable, private coinage goes on, in spite of the endeavours of government. As melting is a more easy process than coining, and can be performed more secretly, it will take place by a less temptation than coinage.

It thus appears that the quantity of money is naturally regulated, in every country, by the value, in other words, by the productive cost, in that country, of the metals of which it is made; that government may, by forcible methods, reduce the actual quantity of money to a certain, but an inconsiderable extent, below that natural quantity;

that it can also, but to a still less extent, raise it above that quantity.

When it diminishes the quantity below what it would be in a state of freedom—in other words, raises the value of the metal in the coins above its value in bullion, it in reality imposes a seignorage. In practice, a seignorage is commonly imposed by issuing coins which contain rather less of the metal than they profess to contain, or less than that quantity to which they are intended to be an equivalent. By coining upon this principle, government makes a profit of the difference between the value of the metal in the coins and that in bullion. Suppose the difference to be five per cent., the government obtains bullion at the market price, and makes it into coins which are worth five per cent. more than the bullion. Coins, however, will retain this value only if, as we have shown in the preceding section, they are limited in amount. To be able to limit them in amount, it is necessary that seignorage should not be so high as to compensate for the risk of counterfeiting; in short, that it should not greatly exceed the expense of coining.

Some nations have made use of two metals, gold and silver, both as standard money, or legal tender to any amount.

For this purpose it was necessary to fix a certain relative value between them. A certain weight of the one was taken to be equal in value to a certain weight of the other.

If the proportion thus fixed for the coins were accurately the proportion which obtained in the market, and continued so invariably, there would be no inconvenience in the two standards. The value of any sum would always be the same in either set of coins.

The relative value, however, of the two metals in the market is fluctuating.

Suppose that the value fixed for the coins is that of 15 to 1; in other words that one piece of gold is equal to 15 pieces of silver of the same weight. A change takes place in the market, and this value becomes as 16 to 1. What follows?

A man who had a debt to pay, equal, let us say, to 100 of the gold pieces, or 1500 of the silver, finds it his interest to pay his debt not with gold. With his 100 pieces of gold he can go into the market and purchase as much silver as may be coined into 1600 pieces, with 1500 of which he may pay his debt, and retain 100 to himself. In this manner silver coins would be multiplied, and the quantity of the currency would be increased; its value would, therefore, be diminished; the gold in coins would thus become of less value than in bullion, hence the gold coins would be melted and would disappear.

After a fluctuation in one direction it may take place in another. Silver may rise, instead of falling, as compared with gold. The relative value may become as 14 to 1. In this case it would be the interest of every man to pay in gold, rather than silver; and in this case it would be the silver coins which would disappear.

Two inconveniences are therefore incurred by the double standard. First, the value of the currency, instead of being rendered as steady in value as possible, is subjected to a particular cause of variation; and secondly, the country is put to the expense of a new coinage as often as a change takes place in the relative value of the metals.

The case would be exactly the same if a seignorage existed. Suppose that 10 per cent. were imposed as seignorage; it would be equally true that the 100 pieces of gold, were the proportion changed from 15 to 1 to 16 to 1, would purchase as much silver as would be exchanged at the mint for 1600 pieces of silver. While the market value of the two metals was the same as the mint value, one piece of gold purchased not only as much silver as was contained in 15 pieces of silver, but one-tenth more; after the change which we have just supposed, it purchases in the proportion of 16 to 15—that is, as much as will be contained in 16 pieces, and a tenth more.

The use of silver coins, for the purpose of small payments, or change, as it is called, of the more valuable coins, if

legal tender only to a small amount, is not liable to the objections which apply to a double standard.

M'CULLOCH.

I shall divide what remarks I have to make on the value of money into two parts: the *first* embracing an inquiry into the principles which determine its value, when every one has the power to bring additional supplies of money to market; and the *second*, an inquiry how far these principles are liable to be affected by the operation of monopoly.

I. It has been contended, by Mr. Locke and others, that the value of the precious metals is *imaginary*, or that it depends on the consent of the nations who have adopted them, to serve as a circulating medium. Mr. Locke was betrayed into this erroneous opinion from his confounding the useful qualities of the precious metals, or the qualities which fit them to be used as money, with the circumstances which determine their value in exchange. But it has been already seen, that the value of all commodities which may be freely produced, and whose quantity may be increased proportionally to the increased demand for them, is in no degree dependent on the qualities they possess, but wholly on the cost of their production, or on the amount of labour and capital required to produce them and bring them to market. Gold is not more valuable than iron, or lead, or tin, because of its greater brilliancy, durability, or ductility; but simply because an infinitely greater outlay of capital and labour is required to produce a given quantity of gold than is required to produce the same quantity of either of these metals. The distinction between the *utility* and *value* of commodities is of fundamental importance, and must never be lost sight of. Those who confound qualities so essentially different, need not expect to arrive, except by the merest accident, at any sound conclusion in treating of such subjects. Suppose that gold, in its native or unmanufactured state, had been infinitely more useful than it really is: if the quantity of labour, or of sweat and toil, required

to obtain a given quantity of it had been the same as at present, this greater utility could have added nothing whatever to its value. The capacity or aptitude which certain articles or products possess of gratifying our wants or desires is either the spontaneous gift of nature, or the result of the labour and industry of man. But though utility derived from the first of these sources may make an article an object of demand, it cannot, inasmuch as it has cost nothing, contribute anything to its exchangeable worth. And hence, when different articles or products are brought to market, which have required equal quantities of labour for their production, their values are equal, though some of them may perhaps be incomparably more useful than others. It must also be remembered that wherever industry is free, the principle of competition will reduce the rate of net profit in different businesses to nearly the same level. It is sufficiently well known that those who employ their capitals in the working of gold or silver mines do not, upon an average, obtain any greater returns than those who are engaged in the raising of coals or the manufacture of bricks. The production of the precious metals is not subjected to any species of monopoly or restraint. All individuals at their pleasure may employ capital in the extraction of bullion from the mines; and there are no conceivable limits to the extent to which its supply may be increased. But it is plain that, under such circumstances, the competition of the producers will force the bullion to be sold at its necessary price, or at such a price as will afford them the common and ordinary rate of profit on their capitals, and no more. If new and more abundant mines, or improved methods of working the old ones, should be discovered at some future period, the value of bullion would proportionally fall; and if, on the contrary, the more productive mines should be exhausted, and it should become necessary to resort to those that are less rich, the value of bullion would necessarily sustain a corresponding rise.

It is not meant, by anything that has now been stated, to deny that the value of gold and silver is liable to be affected

by variations in the supply of and demand for them. It is difficult, however, to suppose that such variations can ever take place to any great extent, unless they have been preceded by a change in the cost of producing the metals. The intimate commercial relations that are now established between the remotest quarters of the world have had the effect to distribute the precious metals, so that their value in any one country differs but little from their value in others; and while their great durability prevents any sudden diminution of their quantity, the immense surface over which they are spread, and the various purposes to which they are applied, render the effect of a considerable increase of supply on their value hardly sensible. All great and permanent variations in the value of the precious metals must, therefore, be occasioned by corresponding variations in the cost of their production. It was not by increasing the supplies of gold and silver, but by enabling them to be obtained at a less expense, that the discovery of America produced the great revolution that took place in their value in the sixteenth century. The bullion that had been accumulated by the natives was very soon exhausted; and if its importation produced any effect on the value of bullion in Europe, it must, had there been no other cause in operation, have been very slight and temporary. But the value of gold and silver was permanently and greatly reduced, because, owing to the greater richness of the American mines, unlimited supplies of these metals could be obtained from them for about a *fourth* or a *fifth* part of the labour that had been previously required to extract them from the mines of the Old World. In consequence of this reduction, the demand for gold and silver was vastly augmented; a proportionally greater supply was required for money; and instead of being confined to the houses of a few noble and opulent individuals, the use of plate became universal among the middle classes, at the same time that immense quantities of bullion were consumed in gilding, embroidery, etc. It is clear, therefore, that those who suppose that the value of bullion fell, because its quantity was increased, mistake the effect

for the cause; the truth being, that its quantity was increased because *its value had been previously lowered*, because means had been discovered of obtaining the same supply of gold and silver for about a fourth or a fifth part of what it had previously cost.

After gold and silver have been brought to market, they may be converted either into coin or manufactured commodities; their conversion into the one in preference to the other depending entirely on a comparison of the profits that may be derived from each operation. No person would take bullion to the mint if he could realise a greater profit by disposing of it to a jeweller, and no jeweller would convert bullion into plate if he could turn it to greater account by converting it into coin. The value of bullion and coin must, therefore, in countries where the expenses of coinage are defrayed by the state, nearly correspond. When there is any unusual demand for bullion in the arts, coin will be melted down; and when, on the contrary, there is any unusual demand for coin, plate will be sent to the mint, and the equilibrium of value maintained by its fusion.

It appears, therefore, that while competition is allowed to operate without restraint on the production of gold and silver, they are, like all other commodities produced under similar circumstances, valuable only in proportion to the cost of their production—that is, in proportion to the quantity of labour necessarily laid out in bringing them to market. And hence, while they form the currency of the commercial world, the price of commodities, or their value compared with gold or silver, will vary, not only according to the variation in the *real* value of the commodities themselves, but also according to the variations in the *real* value of the gold or silver with which they are compared.

II. With respect to the *second* branch of our inquiry, or that which has for its object to discover the laws which regulate the value of gold and silver coins when the power to supply them is placed under restraint, it is obvious that if competition were not allowed to operate on the produc-

tion of the precious metals, if they were monopolised and limited in their quantity, their exchangeable value would no longer depend on the principles previously laid down. Whenever the supply of money is *limited*, its value must vary *inversely* as the quantity of money compared with the quantity of commodities brought to market, or with the business it has to perform. If, on the one hand, double the usual supply of commodities were brought to market in a country with a limited currency, their money price would be reduced a half; and if, on the other, only half the usual supply of commodities were brought to market, their price would be doubled; and this whether the cost of their production had increased or diminished. Guineas, sovereigns, livres, dollars, etc., would then really constitute mere tickets or counters, to be used in computing the value of property, and in transferring it from one individual to another. And as small tickets or counters would serve for that purpose quite as well as large ones, it is unquestionably true that a debased currency may, by first reducing, and then limiting its quantity, be made to circulate at the value it would bear if the power to supply it were unrestricted, and if it were possessed of the legal weight and fineness; and by still further limiting its quantity, it may be made to pass at any higher value.

It appears, therefore, that whatever may be the *material* of the money of any country, and however destitute it may be of all *real* value, it is yet possible, by *sufficiently limiting its quantity*, to raise its value in exchange to any conceivable extent.

Suppose, still better to illustrate this principle, that the money now in circulation in Great Britain consists of fifty or sixty millions of one-pound notes, and that we are effectually prevented from increasing or diminishing this sum, either by issuing additional notes or coins, or by withdrawing those already in circulation; and suppose further that no considerable change takes place in the rapidity of circulation, or in the modes in which money is economised and made use of: it is obvious, on this hypothesis, that

the quantity of commodities for which such notes would exchange would vary inversely, according to the increase or diminution of the quantity of commodities brought to market. If we suppose that twice the amount of products that were offered for sale when the limitation of the currency took place are offered for sale five or ten years afterwards, prices would obviously fall to a half of their former amount; or, which is the same thing, the value of the paper money would be doubled: and if, on the other hand, the products brought to market should be diminished in the same proportion, the value of the paper notes would be equally reduced.

Again, let us assume, as before, that our currency consists of fifty or sixty millions of sovereigns, and suppose that government withdraws them and supplies their place with fifty or sixty millions of sovereigns of half the weight of those now in circulation; and suppose further that the issue of any additional coins, or of paper money, is effectually prevented: in such a case, it is plain that if the same quantity of commodities were brought to market, there would be the same number of pieces of gold coin to exchange against them. There could not, therefore, unless the supply of commodities varied, be any change whatever in their price. The hat that had previously sold for a sovereign would still sell for one. It is true that the sovereign for which it now sells is only half the real value of the one previously in circulation; but this deficiency of real value has been fully compensated by the artificial value which the monopoly has given to the lighter sovereign. The country has a certain number of exchanges to perform; and it is quite obvious that if the currency which is to perform these exchanges were sufficiently limited, a shilling might be made to do the business, or to pass at the value of a guinea.

The principles now stated are of the utmost importance to a right understanding of the real nature of money. In inquiring into the circumstances on which its value depends, we must always ascertain, in the first place, whether the

power to supply it is free or monopolised. Up to a very recent period, it was universally maintained that the value of money depended entirely on the relation between its amount and the demand. But this is true only of a gold or silver currency when its quantity is *limited*, and of a currency formed of materials having little intrinsic worth when its quantity is *limited*, and when it is not made convertible, at the pleasure of the holder, into some more valuable commodity. It is obvious, indeed, without any reasoning on the subject, that the value of a currency consisting of *inconvertible* paper, or of any other very cheap material, must depend on the proportion which its total amount bears to the amount of commodities brought to market, or to the demand. And wherever a currency of this kind, or a monopolised gold currency, is in circulation, the common opinion, that the prices of commodities are regulated exclusively by the proportion between the quantity of them brought to market and the supply of money, is quite correct. But it is altogether different with a freely-supplied currency consisting of gold or silver, or of any other article possessed of considerable value. The fluctuations in the supply and demand of such currency have no permanent effect on its exchangeable value; this depends exclusively on the comparative *cost of its production*. If a guinea commonly exchanges for a couple of bushels of wheat or a hat, it is because the same expense has been incurred in its production as in that of either of these commodities; while, if with a limited and inconvertible paper money, these commodities exchange for a *guinea note*, it is because such is the proportion which, *as a part of the general mass of commodities offered for sale, they bear to the supply of paper, or money, in the market.* This proportion would, it is evident, be not only immediately, but permanently, affected by an increase or diminution of the supply either of paper or of commodities. But the relation which commodities bear to a freely supplied metallic currency cannot be permanently changed, except by a change in the cost of producing the commodities or the metals.

Such are the circumstances which determine the value of money, both when the power to supply it is not subjected to any species of monopoly, and when it is monopolised and limited. In the former case its value depends, like the value of all other commodities, on the cost of its production; while in the latter case, its value is totally unaffected by that circumstance, and depends entirely on the extent to which it has been issued compared with the demand.

I have been induced to state these principles with respect to the effect of limiting the quantity of money on its value, so much at large, because those who are not familiar with them can form no accurate idea with respect to the circumstances which determine the value of paper currency. It may, however, be proper to observe that the operation of the principle of limitation on the value of metallic money could hardly, supposing an attempt were made to act upon it, have any considerable effect. From the smallness of their bulk in proportion to their value, the precious metals are very easily smuggled. And supposing that government were to attempt, by limiting the quantity of gold and silver in circulation, to give a considerable artificial increase to their value, such an overpowering temptation would be held out to the clandestine importation of these metals from foreign countries as no vigilance on the part of the custom-house officials could counteract. And, therefore, while it is most true that when the currency *can be limited* it may be made to pass at a much higher value than that which naturally belongs to it, it is no less true that this principle cannot be practically acted upon, at least to any material extent, in a country whose currency consists wholly of the precious metals, or of anything else that is immediately convertible into them; the facilities of importing them from other countries being so great as to prevent any considerable limitation of their quantity being either made or maintained.

It must not, however, be supposed that because it is impossible, by limiting the supply of metallic money, to raise its value considerably above the value of bullion, it

would therefore be improper to impose a moderate seignorage or duty on the coinage of money. Coins on which a seignorage equal to the expense of coinage has been charged do not pass at a higher value than what naturally belongs to them, but *at that precise value;* whereas when, as in Great Britain, the expenses of coinage are defrayed by the state, coins pass at less than their real value. A sovereign is of greater utility and of greater real value than a piece of pure unfashioned gold bullion of the same weight, because while it is equally well fitted as bullion for being used in the arts, it is, owing to the additional labour expended upon it, better adapted for being used as money, or in the exchange of commodities. On what principle, then, should government decline to charge a seignorage or duty on coins, equal to the expenses of the coinage, or, which is the same thing, to the value which it adds to the coins? Those who contend that the state ought to defray the expenses of the coinage of gold and silver might, with equal cogency of reasoning, contend that it ought also to defray the cost of manufacturing gold and silver teapots, vases, etc. In both cases the value of the bullion is increased by the cost of the workmanship; and it is only fair and reasonable that those who carry bullion to the mint ought to be obliged, equally with those who carry it to a jeweller, to pay the expenses necessarily attending its conversion into coin.

The imposition of a seignorage would prevent the exportation of coin on every slight fall of the exchange, and would also tend to prevent the fusion of the coins. Abroad a British coin is only worth so much bullion; but if a seignorage were charged upon it, its value here would be increased by the cost of that seignorage. The exchange would, therefore, have to fall to a greater extent than at present before it would suit a merchant to export such coins; and though they were exported, they would, under the circumstances supposed, stand a much better chance of being preserved entire, and of being again sent back to us the moment the exchange became favourable.

J. S. MILL.

It is unfortunate that in the very outset of the subject we have to clear from our path a formidable ambiguity of language. The Value of Money is to appearance an expression as precise, as free from possibility of misunderstanding, as any in science. The value of a thing is what it will exchange for: the value of money is what money will exchange for; the purchasing power of money. If prices are low, money will buy much of other things, and is of high value; if prices are high, it will buy little of other things, and is of low value. The value of money is inversely as general prices: falling as they rise, and rising as they fall.

But unhappily the same phrase is also employed, in the current language of commerce, in a very different sense. Money, which is so commonly understood as the synonyme of wealth, is more especially the term in use to denote it when it is the subject of borrowing. When one person lends to another, as well as when he pays wages or rent to another, what he transfers is not the mere money, but a right to a certain value of the produce of the country, to be selected at pleasure; the lender having first bought this right, by giving for it a portion of his capital. What he really lends is so much capital; the money is the mere instrument of transfer. But the capital usually passes from the lender to the receiver through the means either of money, or of an order to receive money, and at any rate it is in money that the capital is computed and estimated. Hence, borrowing capital is universally called borrowing money; the loan market is called the money market: those who have their capital disposable for investment on loan are called the moneyed class: and the equivalent given for the use of capital, or in other words, interest, is not only called the interest of money, but, by a grosser perversion of terms, the value of money. This misapplication of language, assisted by some fallacious appearances, has created a general notion among persons in business, that

the Value of Money, meaning the rate of interest, has an intimate connection with the Value of Money in its proper sense, the value or purchasing power of the circulating medium. By Value I shall always mean Exchange Value, and by money the medium of exchange, not the capital which is passed from hand to hand through that medium.

The value or purchasing power of money depends, in the first instance, on demand and supply. But demand and supply, in relation to money, present themselves in a somewhat different shape from the demand and supply of other things.

The supply of a commodity means the quantity offered for sale. But it is not usual to speak of offering money for sale. People are not usually said to buy or sell money. This, however, is merely an accident of language. In point of fact, money is bought and sold like other things, whenever other things are bought and sold *for* money. Whoever sells corn, or tallow, or cotton, buys money. Whoever buys bread, or wine, or clothes, sells money to the dealer in those articles. The money with which people are offering to buy, is money offered for sale. The supply of money, then, is the quantity of it which people are wanting to lay out; that is, all the money they have in their possession, except what they are hoarding, or at least keeping by them as a reserve for future contingencies. The supply of money, in short, is all the money in *circulation* at the time.

The demand for money, again, consists of all the goods offered for sale. Every seller of goods is a buyer of money, and the goods he brings with him constitute his demand. The demand for money differs from the demand for other things in this, that it is limited only by the means of the purchaser. The demand for other things is for so much and no more; but there is always a demand for as much money as can be got. Persons may indeed refuse to sell, and withdraw their goods from the market, if they cannot get for them what they consider a sufficient price. But this is only when they think that the price will rise,

and that they shall get more money by waiting. If they thought the low price likely to be permanent, they would take what they could get. It is always a *sine qua non* with a dealer to dispose of his goods.

As the whole of the goods in the market compose the demand for money, so the whole of the money constitutes the demand for goods. The money and the goods are seeking each other for the purpose of being exchanged. They are reciprocally supply and demand to one another. It is indifferent whether, in characterising the phenomena, we speak of the demand and supply of goods, or the supply and the demand of money. They are equivalent expressions.

From what precedes, it might for a moment be supposed, that all the goods on sale in a country at any one time are exchanged for all the money existing and in circulation at that same time; or, in other words, that there is always in circulation in a country, a quantity of money equal in value to the whole of the goods then and there on sale. But this would be a complete misapprehension. The money laid out is equal in value to the goods it purchases; but the quantity of money laid out is not the same thing with the quantity in circulation. As the money passes from hand to hand, the same piece of money is laid out many times, before all the things on sale at one time are purchased and finally removed from the market: and each pound or dollar must be counted for as many pounds or dollars as the number of times it changes hands in order to effect this object. The greater part of the goods must also be counted more than once, not only because most things pass through the hands of several sets of manufacturers and dealers before they assume the form in which they are finally consumed, but because in times of speculation (and all times are so, more or less) the same goods are often bought repeatedly to be resold for a profit, before they are bought for the purpose of consumption at all.

If we assume the quantity of goods on sale, and the number of times those goods are resold, to be fixed

quantities, the value of money will depend upon its quantity, together with the average number of times that each piece changes hands in the process. The whole of the goods sold (counting each resale of the same goods as so much added to the goods) have been exchanged for the whole of the money, multiplied by the number of purchases made on the average by each piece. Consequently, the amount of goods and of transactions being the same, the value of money is inversely as its quantity multiplied by what is called the rapidity of circulation. And the quantity of money in circulation is equal to the money value of all the goods sold, divided by the number which expresses the rapidity of circulation.

The phrase, rapidity of circulation, requires some comment. It must not be understood to mean, the number of purchases made by each piece of money in a given time. Time is not the thing to be considered. The state of society may be such, that each piece of money hardly performs more than one purchase in a year; but if this arise from the small number of transactions—from the small amount of business done, the want of activity in traffic, or because what traffic there is mostly takes place by barter—it constitutes no reason why prices should be lower, or the value of money higher. The essential point is, not how often the same money changes hands in a given time, but how often it changes hands in order to perform a given amount of traffic. We must compare the number of purchases made by the money in a given time, not with the time itself, but with the goods sold in that same time. If each piece of money changes hands on an average ten times while goods are sold to the value of a million sterling, it is evident that the money required to circulate those goods is £100,000. And conversely, if the money in circulation is £100,000, and each piece changes hands by the purchase of goods ten times in a month, the sales of goods for money which take place every month must amount on the average to £1,000,000.

Rapidity of circulation being a phrase so ill adapted

to express the only thing which it is of any importance to express by it, and having a tendency to confuse the subject by suggesting a meaning extremely different from the one intended, it would be a good thing if the phrase could be got rid of, and another substituted, more directly significant of the idea meant to be conveyed. Some such expression as "the efficiency of money," though not unexceptional, would do better: as it would point attention to the quantity of work done, without suggesting the idea of estimating it by time. Until an appropriate term can be devised, we must be content, when ambiguity is to be apprehended, to express the idea by the circumlocution which alone conveys it adequately—namely, the average number of purchases made by each piece in order to effect a given pecuniary amount of transactions.

It is habitually assumed that whenever there is a greater amount of money in the country, or in existence, a rise of prices must necessarily follow. But this is by no means an inevitable consequence. In no commodity is it the quantity in existence, but the quantity offered for sale, that determines the value. Whatever may be the quantity of money in the country, only that part of it will affect prices which goes into the market of commodities, and is there actually exchanged against goods. Whatever increases the amount of this portion of the money in the country, tends to raise prices. But money hoarded does not act on prices. Money kept in reserve by individuals to meet contingencies which do not occur, does not act on prices. The money in the coffers of the Bank, or retained as a reserve by private bankers, does not act on prices until drawn out, nor even then unless drawn out to be expended on commodities.

But money, no more than commodities in general, has its value definitively determined by demand and supply. The ultimate regulator of its value is cost of production. A pound weight of gold or silver in coin, and the same weight in an ingot, will precisely exchange for one another. On the supposition of freedom, the metal cannot be worth

more in the state of bullion than of coin; for as it can be melted without any loss of time, and with hardly any expense, this would of course be done, until the quantity in circulation was so much diminished as to equalise its value with that of the same weight in bullion. It may be thought, however, that the coin, though it cannot be of less, may be, and being a manufactured article will naturally be, of greater value than the bullion contained in it, on the same principle on which linen cloth is of more value than an equal weight of linen yarn. This would be true, were it not that government, in this country and in some others, coins money gratis for any one who furnishes the metal. The labour and expense of coinage, when not charged to the possessor, do not raise the value of the article. If government opened an office where, on delivery of a given weight of yarn, it returned the same weight of cloth to any one who asked for it, cloth would be worth no more in the market than the yarn it contained. As soon as coin is worth a fraction more than the value of the bullion, it becomes the interest of the holders of bullion to send it to be coined. If government, however, throws the expense of coinage, as is reasonable, upon the holder, by making a charge to cover the expense (which is done by giving back rather less in coin than has been received in bullion, and is called levying a seignorage), the coin will rise, to the extent of the seignorage, above the value of the bullion. If the Mint kept back one per cent., to pay the expense of coinage, it would be against the interest of the holders of bullion to have it coined, until the coin was more valuable than the bullion by at least that fraction. The coin, therefore, would be kept one per cent. higher in value, which could only be by keeping it one per cent. less in quantity, than if its coinage were gratuitous.

The government might attempt to obtain a profit by the transaction, and might lay on a seignorage calculated for that purpose; but whatever they took for coinage beyond its expenses, would be so much profit on private coining. Coining, though not so easy an operation as melting, is far

from a difficult one, and, when the coin produced is of full weight and standard fineness, is very difficult to detect. If, therefore, a profit could be made by coining good money, it would certainly be done: and the attempt to make seignorage a source of revenue would be defeated. Any attempt to keep the value of the coin at an artificial elevation, not by a seignorage, but by refusing to coin, would be frustrated in the same manner.[1]

If gold is above its natural or cost value—the coin, as we have seen, conforming in its value to the bullion—money will be of high value, and the prices of all things, labour included, will be low. These low prices will lower the expenses of all producers; but as their returns will also be lowered, no advantage will be obtained by any producer, except the producer of gold: whose returns from his mine, not depending on price, will be the same as before, and his expenses being less, he will obtain extra profits, and will be stimulated to increase his production. The reverse is the case if the metal is below its natural value: since this is as much as to say that prices are high, and the money expenses of all producers unusually great: for this, however, all other producers will be compensated by increased money returns: the miner alone will extract from his mine no more metal than before, while his expenses will be greater: his profits therefore being diminished or annihilated, he will diminish his production, if not abandon his employment. In this manner it is that the value of money is made to conform to the cost of production of the metal of which it is made.

[1] In England, though there is no seignorage on gold coin (the Mint returning in coin the same weight of pure metal which it receives in bullion) there is a delay of a few weeks after the bullion is deposited, before the coin can be obtained, occasioning a loss of interest, which, to the holder, is equivalent to a trifling seignorage. From this cause, the value of coin is in general slightly above that of the bullion it contains. An ounce of gold, according to the quantity of metal in a sovereign, should be worth £3 17s. 10½d.; but it was usually quoted at £3 17s. 6d., until the Bank Charter Act of 1844 made it imperative on the Bank to give its notes for all bullion offered to it at the rate of £3 17s. 9d.

Money, then, like commodities in general, having a value dependent on, and proportional to, its cost of production; the theory of money is, by the admission of this principle, stripped of a great part of the mystery which apparently surrounded it. We must not forget, however, that this doctrine only applies to the places in which the precious metals are actually produced; and that we have yet to inquire whether the law of the dependence of value on cost of production applies to the exchange of things produced at distant places. But however this may be, our propositions with respect to value will require no other alteration, where money is an imported commodity, than that of substituting for the cost of its production, the cost of obtaining it in the country. Every foreign commodity is bought by giving for it some domestic production; and the labour and capital which a foreign commodity costs to us, is the labour and capital expended in producing the quantity of our own goods which we give in exchange for it. What this quantity depends upon—what determines the proportions of interchange between the productions of one country and those of another—is indeed a question of somewhat greater complexity than those we have hitherto considered. But this at least is indisputable, that within the country itself the value of imported commodities is determined by the value, and consequently by the cost of production, of the equivalent given for them; and money, where it is an imported commodity, is subject to the same law.

THE END.